Dayton Hudson Corporation

TARGET   MERVYN'S   DAYTON'S   HUDSON'S   MARSHALL FIELD'S

1995 Annual Report

delivering guestservice

Contents

About the Company

Our employees make the difference when it comes to guest service.

On the cover, pictured left to right: Naomi Klair Parker, Marshall Field's Water Tower Place; Eric Ofori-Atta, Dayton's Southdale; Becky Barbeau, Target Woodbury; Rima Ayoub, Hudson's Fairlane; Ron Martinez, Mervyn's Rosedale

Dayton Hudson Corporation, America's fourth largest general merchandise retailer, is committed to being a premier growth company and corporate citizen. Each of our operating companies strives to be a major force in its geographic markets, retail category and customer segment.

Target, which accounts for 67 percent of our revenues, is an upscale discount chain of 670 stores in 33 states, providing quality merchandise at low prices in guest-friendly stores.

Mervyn's, which contributes 19 percent of our revenues, is a middle-market promotional department store emphasizing name-brand and private-label casual apparel and home soft goods through 295 stores in 16 states.

Department Store Division, which provides 14 percent of our revenues, offers trend leadership, quality merchandise and superior service through 64 Dayton's, Hudson's and Marshall Field's stores in nine states.

Green Lights Partner

This annual report is printed on 20 percent post-consumer fiber paper, made from recycled cardboard boxes from our stores. In 1995, Dayton Hudson recycled more than 300 million pounds of cardboard and office paper, enough to save more than 2.5 million trees.

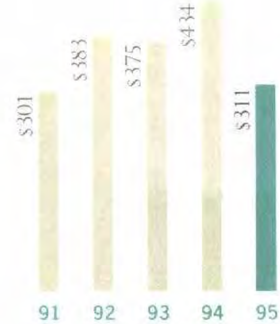
Financial Highlights

(Millions of Dollars, Except Per Share Data)

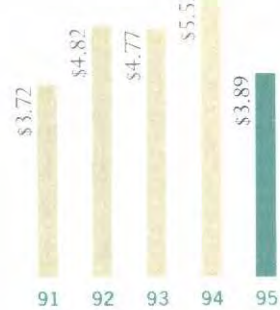
For the Year	1995	1994	Change
Revenues	**$23,516**	$21,311	10%
Net earnings	**$ 311**	$ 434	(28%)
Fully diluted earnings per share	**$ 3.89**	$ 5.52	(30%)
Cash dividends declared per share	**$ 1.76**	$ 1.68	5%

At Year-end		
Common shares outstanding	**71,965,000**	71,690,000
Retail square feet	**109,091,000**	101,163,000
Number of stores	**1,029**	960

Revenues



Net Earnings



Earnings per Share

Total revenues increased **10 percent** to a record $23.5 billion in fiscal 1995, compared with $21.3 billion in 1994.

Retail square footage has grown at a compound annual rate of **8 percent** over the last five years.

Dayton Hudson continued to invest aggressively in the long-term growth of its businesses, enhancing the strength of the company by wisely adding new stores, remodeling existing stores, improving distribution and upgrading technology.

"Entering fiscal 1996, I have one **priority:** to improve the financial performance of this company."

To Our Shareholders:

In the two years since I became CEO, we have made progress toward creating a strong, agile company that is strategically positioned to capitalize on the challenges of the constantly changing retail landscape. Now, we must intensify our efforts to ensure that Dayton Hudson is the premier retailer known for superior guest service, quality trend-right merchandise and profitable growth. We know that our success in creating value for our shareholders is largely tied to our ability to deliver on these commitments.

Entering fiscal 1996, I have one priority: to improve the financial performance of this company. We've already put in place important initiatives in each of our divisions that will allow us to enhance guest satisfaction, drive incremental sales, reduce costs and operate more efficiently. This will enable us to achieve significantly improved results and fulfill the company's purpose of enhancing shareholder value.

Target

Target remains a leader in the discount retail segment — delivering consistent, strong comparable-store sales growth, while simultaneously expanding its presence with new stores in both existing and new markets. We have successfully differentiated Target from other discounters on trend, merchandise quality and guest service, while matching the competition on price.

Moving forward, our strategies are clear. We will continue to build on Target's strong position and even increase its market share by pursuing strategic growth opportunities and reducing our costs.

To grow, we're moving into new states in the Mid-Atlantic and Northeast. In 1996, we will open 28 new Target stores in New York, Maryland, Virginia and Washington, D.C., giving us access to many new potential guests. In addition, we successfully introduced the Target Guest Credit Card last year. The Guest Card, which has been well-received by our guests, is also helping us further increase our sales.

In 1995, we unveiled our first two SuperTargets, combining convenient one-stop shopping for groceries and the great general merchandising aspects of a Target Greatland. We plan to add six more SuperTargets in 1996 to further assess this strategy.

In the coming years, one of our top priorities is to reduce our operating expenses — with $50 million in savings expected to be realized by the end of 1996. While our differentiated strategy has made us successful to date, we recognize that to remain competitive in the future, we must be relentless in our efforts to drive down costs.

As we pursue our growth initiatives and focus on reducing costs, we expect to realize continued solid sales growth and significantly improve Target's profitability.

Mervyn's

In 1995, we announced major changes designed to improve Mervyn's performance. Effective implementation of these changes will enable us to enhance guest satisfaction and meet the financial and growth objectives we've set. As a result of these efforts, we believe that Mervyn's is now on track to deliver substantially higher profit in 1996.

We are particularly encouraged by our progress in the second half of 1995 to reposition Mervyn's merchandise content and marketing efforts. Specifically, we have increased promotional activity and are offering more merchandise on sale each week. We've also placed greater emphasis on national brands and broadened our merchandise assortments to give guests more reasons to shop at Mervyn's. To enhance the effectiveness of our advertising, we've redirected resources and increased our use of print media.

Last year, we launched a new prototype store in Minnesota with a California theme to add an element of fun and excitement to the Mervyn's franchise. The Mervyn's *California* concept has generated significant guest interest, and we have rolled out key elements of this strategy chainwide.

Aggressive cost-reduction programs are a major component of our strategy. We are taking the necessary steps to reduce expense levels and increase our operating efficiencies. We began implementing a program early in fiscal 1996 that will help us realize $100 million of annualized savings, the majority of which will be achieved in 1996.

The benefits of all these actions will become more apparent in the months and years ahead. As they do, we fully expect Mervyn's to contribute significantly improved operating profit in 1996 — toward our long-term objective of achieving 7 percent operating profit margin over the next several years.

Department Stores

Our goal is to return the Department Stores to superior profitability over the next several years. We are committed to achieving this goal by pursuing a strategy aimed at returning Dayton's, Hudson's and Marshall Field's to their heritage as fine department stores and reclaiming their position as fashion leaders in their respective local markets.

Initiatives underway include: expanding our assortment of "better" merchandise, introducing more unique items into the stores, reducing the number of storewide promotions and improving guest service by increasing staffing levels in key merchandise areas. Our gains in the next several years will be a direct result of these differentiating actions, some examples of which are covered later in this report.

Recognizing the need to be vigilant on the expense-front, we've also identified $20 million in annualized savings that we believe will have a positive impact on our future results.

To lead these efforts, we recently named Linda Ahlers president of the Department Store Division. Linda's strong track record and experience in merchandising make her well-suited for this new position.

Power of One

Today, we are more dedicated than ever to enhancing value for you — our shareholders. And we believe that we are well-positioned to do so.

That's because we are creating a leading retail company and a "boundaryless" system for managing it that will allow us to grow profitably in the years ahead. Dayton Hudson is essentially one retail company with three faces to our guests but with common needs in systems, transportation, credit and collections, property development and advertising production, to name just a few.

Whether it's in the discount segment or the middle-market or upscale department store, we believe our three divisions have more similarities than differences. These businesses complement one another — allowing us to appeal to a broader guest population with a wide range of merchandise and prices. By drawing upon the strengths of each division, we realize further benefits. For example, it enables us to marry the cash-needs of Target with the cash-generation of the Department Stores. Together, our divisions also have powerful operating synergies that provide us significant economies of scale.

We intend to capitalize on our investments by leveraging our resources to compete more effectively and efficiently in the marketplace. Spreading best practices throughout the organization, sharing valuable trend information, working together to improve guest service, and empowering all our employees to act swiftly, creatively and productively will enable us to continue to enhance our position relative to our competitors. We believe that this boundaryless approach, which we call the "Power of One," is key to the company's financial success and increased shareholder wealth.

Sincerely,

Bob Ulrich

Bob Ulrich
Chairman and
Chief Executive Officer
March 26, 1996

Board of Directors Changes

During 1995, Robert Burnett, retired Chairman and Chief Executive Officer of Meredith Corp., retired from the board of directors after 12 years of service. We thank Bob for his many contributions. We also welcomed to the board James Johnson, Chairman and Chief Executive Officer of the Federal National Mortgage Association (Fannie Mae), in January 1996, and Stephen Sanger, Chairman and Chief Executive Officer of General Mills, Inc., who will join the board in April 1996.

In all our stores across the country, we share a fundamental belief: Our guests always come first.

We call our customers "guests" because we want them to know they are as important as guests in our home. Everything we do inside the company, we do to deliver great guest service. For us, it goes beyond providing knowledgeable and courteous service on the sales floor to making sure that we have the right merchandise at the right time and that our stores are convenient and inviting places to shop.

We know that if we serve our guests well, our own success will follow. A loyal guest buys more merchandise, more frequently, and refers other guests to our stores. We recognize that total guest satisfaction is the key to securing this loyalty and to achieving sustainable, long-term profitable growth.

In short, we aim to provide guests the shopping experience and merchandise we promise. We deliver on our promise of great guest service when every team member and every department—from real estate to information systems to merchandising—is focused on our guests. On the following pages, you will read about some of the areas that we focus on in our mission to satisfy our guests.

New technology and training programs mean our guests will receive prompt, efficient service.

Target's new Guest Committee developed a cross-training program to reduce service delays in various areas of the store. The program provides in-depth training about products in busy areas, such as electronics and jewelry, and walkie-talkies are used to alert team members of backups. And a new cashier coaching program is speeding up the check-out process by enhancing cashier proficiency.

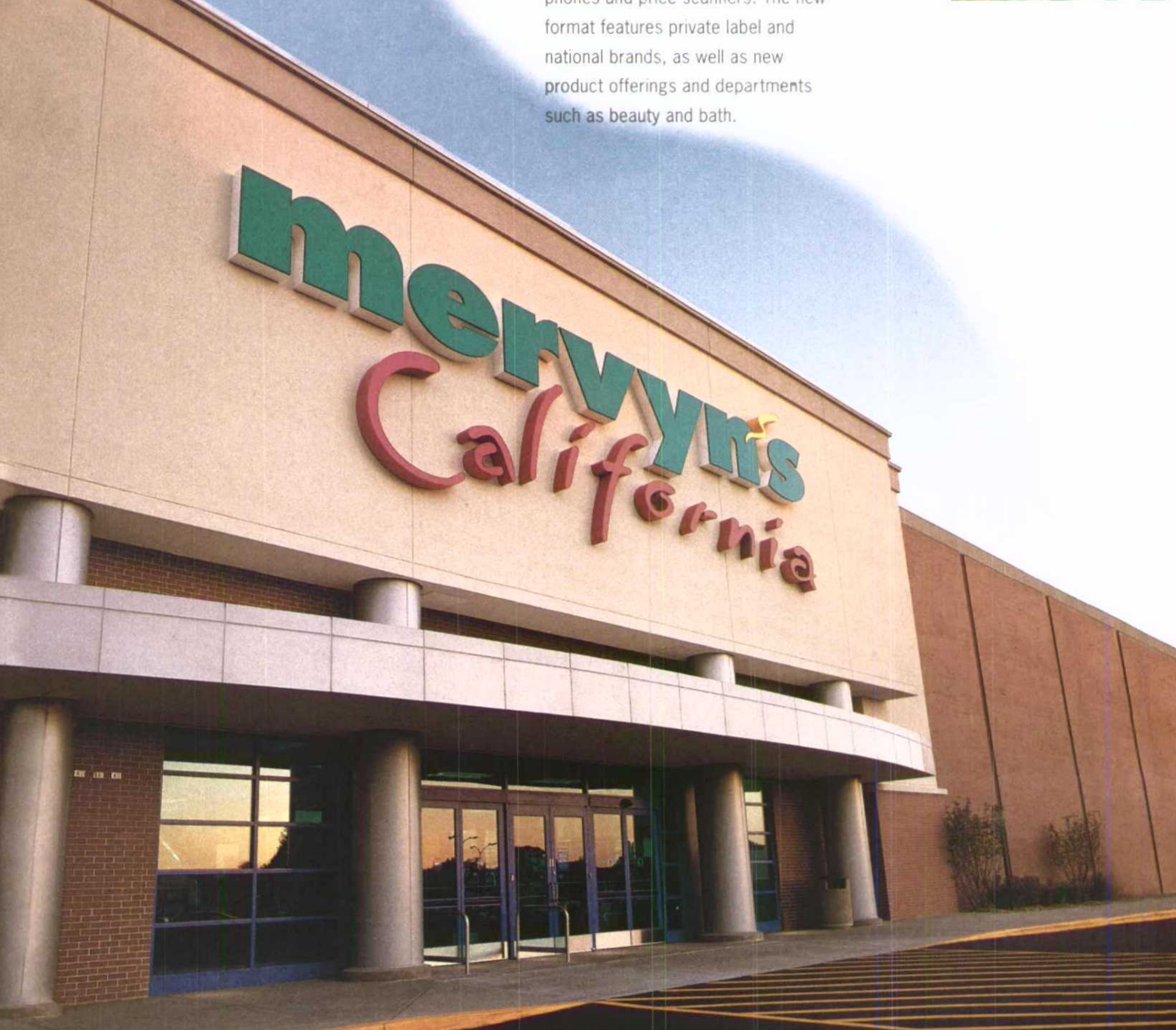
faster is better

With the same goal of speed and service, Mervyn's has instituted new technology to help guests find items easily and check-out swiftly and efficiently. Some of these innovations include: hands-free checkout scanners and registers featuring easy, on-screen prompts; guest price checkers that instantly read and display an item's price; and "quik phones" in key store locations that give guests instant access to a team member.

attractive,
inviting stores

Keeping our stores updated and fresh is an important way to ensure that Dayton Hudson stores provide a pleasurable destination for shopping.

In 1995, Mervyn's *California* debuted six locations in Minneapolis/ St. Paul, two in California and one each in Texas and Washington. The stores feature 10 California "shops" with fun visuals and private-label merchandise that relate to an active, outdoor California lifestyle. Club California, in the Minnesota stores, has an avenue of services that includes a cafe, hair salon, photo studio and ticket office. To enhance convenience, the new stores have centralized checkouts, strollers, help phones and price scanners. The new format features private label and national brands, as well as new product offerings and departments such as beauty and bath.



special amenities
to appreciate

Target introduced its version of the ultimate one-stop shopping store with the debut of SuperTarget®, a quality discount super center that combines an upscale grocery store with the already successful Target Greatland.℠ In addition to a friendly, sleek design, guests find special store services such as our hot and cold deli, pharmacy, floral shop, bank, one-hour photo lab, bakery, Food Avenue® restaurant and parcel pick-up.

In addition, all Target stores feature other special amenities, namely, Lullaby Club℠ and Club Wedd®—gift registries for babies and weddings that bring new ease and convenience to buying the perfect gift.

The Department Stores set the standard in service amenities. Each division offers personalized wardrobe consulting, TicketMaster outlets, hair salons, package pick-up, gift-wrapping and travel services. These amenities have long established the Department Stores' reputation for attention to detail and superior service.

technology
keeps shelves well-stocked

Successful implementation of technology means team members spend less time sorting, tracking and pricing merchandise and more time on guest service. Three projects piloted by Target help keep shelves stocked with the right types and amounts of merchandise.

Decision Makers Workbench Instock application is a new computer system at Target that monitors inventory to help merchandise planners better identify stores that are running below a minimum stock level. The goal of the system is to pinpoint stock issues before the guest finds an empty shelf. The New Store Modeling system allows each new Target store to tailor its orders to fit the unique needs of its store demographics. Automated Logistics is a streamlined new system that ensures store shelves carry an optimal amount of inventory. The system saved millions of dollars in inventory costs in 1995, enabling Target to offer great value to guests.

"In my association with Dayton's and Marshall Field's, I have always been aware of their sincere drive to do the right thing in their treatment of their patrons."

Esther Kazer

team member training
for better guest service

In addition to exceptional merchandise selection and affordable prices, superior guest service keeps guests coming back again and again. Extensive service training programs reinforce our commitment to providing outstanding guest service on the sales floor.

At Mervyn's, the "Guest First" initiative encourages team members to go out of their way to greet and help Mervyn's guests. Guest First motivates team members to continually look for ways to exceed guests' expectations. Team members use a "10 by 10" practice, where guests are acknowledged within 10 seconds or within a 10-foot distance from a team member.

The Department Store Division's guest service program encourages associates to provide knowledgeable, helpful service. Techniques, such as checking in with guests to offer assistance and suggesting additional items, are emphasized in order to increase the value of guests' shopping experience. The goal is to provide such great service that guests leave the store thinking, "That was worth it." The Department Store Division is demonstrating its dedication to guest service by increasing the number of associates on the sales floor by 10 percent in 1996.

At Target, a team of "Everyday Heroes" strives each day to demonstrate the winning fast, fun and friendly attitude for which Target is known. Store team leaders encourage guest-friendly actions, such as keeping shelves and displays well-stocked and serving guests quickly in every area of the store.

simplified shopping trip

Whether it's outfitting your home, your family or yourself, Dayton Hudson provides a shopping environment that simplifies the shopping process for its guests. To help guests understand and find the right "business casual" merchandise, the Department Stores present Workday Casual outfits and mix-and-match presentations on their mannequins and in-store displays. This type of merchandise presentation helps guests visualize completed outfits and makes it easier to find and choose a smart wardrobe.

the right merchandise

In 1995, Mervyn's added departments and expanded merchandise offerings in response to guest input. In addition, Mervyn's stores enhanced their product categories to include small appliances, cookware, bath and body, casual luggage and tabletop accessories.

In response to guest feedback, the Department Stores are shifting their mix of merchandise toward better goods and more unique assortments, reinforcing our fashion leadership and our goal to be the "best department store in town." We're placing more emphasis on the quality of goods at all levels. The strategy makes Dayton's, Hudson's and Marshall Field's special places to shop, which is consistent with our heritage.

easy-to-navigate stores

Life in the '90s is more fast-paced than ever, time is a hot commodity and consumers' shopping habits reflect this trend. For today's shoppers, convenience is no longer a luxury—it's a requirement. We're putting convenience to work in our stores, with store layouts that are guest-friendly and easy to shop.

The new Marshall Field's Northbrook Court store (above) in suburban Chicago features an award-winning layout that emphasizes convenience. Departments throughout the three-level store are clearly visible from the centrally located escalator and glass elevators. The store's state-of-the-art design has a minimum of interior walls—allowing customers to see merchandise more easily and helping Field's associates to more readily assist those in need of customer service. *Chain Store Age* magazine named Northbrook Court "1995 Retail Store of the Year" in the department store category.

The new "dual-store" Dayton's at Ridgedale Mall in suburban Minneapolis is a store expansion to two separate sites within the mall. Layout enhancements include an open floor design, seating throughout the store, large fitting rooms, plenty of mirrors and wheelchair accessible amenities.

Target is showcasing its commitment to layout convenience with the new SuperTarget concept. As in all Target stores, the new super center is a brightly lit environment with wide, uncluttered aisles, guest service areas at the front of the store, and clearly marked and strategically placed signage for merchandise departments.

"From the moment I stepped into Target, I truly felt like a 'guest.' I came into direct contact with at least eight 'team members' on my visit and every one of them bent over backwards to help me get what I needed."

Jeffrey Hawkins

committed to our communities

We're committed to serving our guests by volunteering our time, in-kind services and financial resources in communities where we operate stores. No other retailer matches the Dayton Hudson commitment to community service.

Target headquarters team members gave new meaning to fast-track construction in September when they hammered, sawed and painted their way to build Habitat for Humanity's 40,001st home in just 10 days in downtown Minneapolis. The effort was part of Target's "Building a Wonderful Life" program, an initiative with Habitat for Humanity International that helps people in need acquire decent and affordable housing. Target team members build a Habitat for Humanity home in almost every community where we open a new store. Since launching "Building a Wonderful Life" in 1993, Target has built more than 86 homes—and plans to construct 50 more homes in 1996.

meeting our guests' unique needs

Micro-marketing is a key strategy at Target that ensures guests have the merchandise they want. Whether it's stocking the local university sweatshirt or carrying a broader selection of country music in select markets, Target is committed to providing its guests with a "hometown feel." Although Target is primarily focusing on micro-marketing to African-American, aging, Hispanic and western market segments, it continues to analyze a variety of guest preferences—such as color palate, climate and regional preferences, and cultural and demographic trends.

new stores nearby

Offering locations that are convenient to our guests is the cornerstone of our growth strategy. Much of our growth is targeted for existing metropolitan markets, where we add new stores that are closer to existing guests—and also offer opportunities to draw new guests.

With 28 Target stores opening on the East Coast in 1996, millions of new guests will experience the trend-right merchandise and value Target brings to its communities. Target will open new stores in Maryland, New York and Virginia, and is exploring additional locations in surrounding areas.

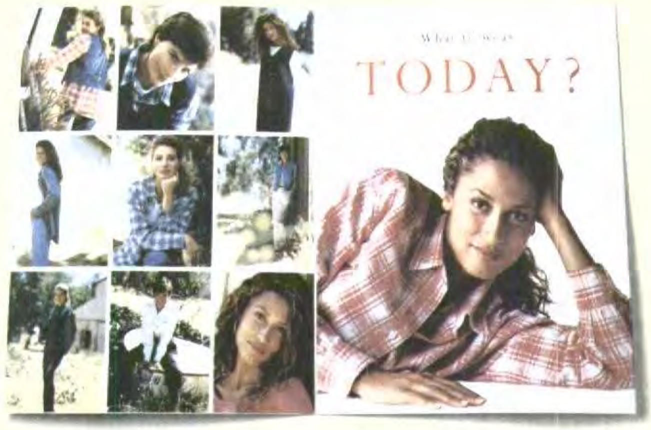
The Department Stores also are responding to guest needs. In Minnesota, Dayton's will open its first new store in almost 20 years in Maplewood in 1996. Detroit will also get its first new metro store since 1978 at Somerset Mall; it is expected to be one of Hudson's top-performing stores within five years. And residents in Port Huron, Michigan, will see a Hudson's store open in 1997, after years of anticipation.

the latest fashions and trends

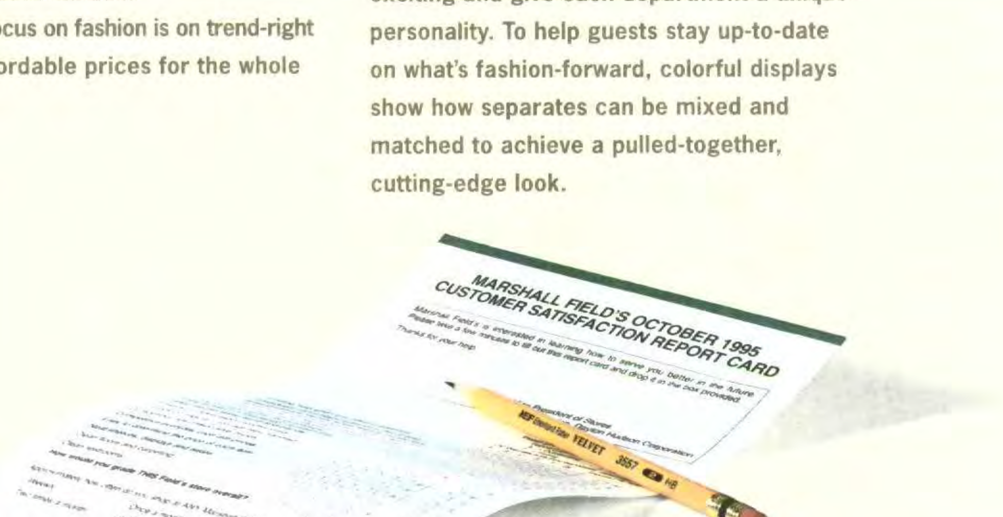
The fashions carried by Dayton Hudson are an important force in defining each of our three operating divisions. Each division maintains leadership in its retail category by staying on top of the latest trends, interpreting that trend for its unique guests and sharing trend information with each operating company.

To maintain the Department Stores' fashion leadership, buyers, merchandise planners and assistant buyers are being added to ensure that the fashions offered are exciting, fresh and upscale. More frequent buying trips, both nationally and internationally, will keep the Department Stores ahead of the newest trends in fashion.

Target's focus on fashion is on trend-right styles at affordable prices for the whole family. The trend merchandising team works one year in advance to forecast color, details and themes, and then meets with Target buyers who develop fashion merchandise at great values. Target apparel featured in high-gloss, well-respected fashion magazines has built instant credibility with guests for Target's fashion sense.



Mervyn's provides fashion expertise with "trend zones" in its stores that are visually exciting and give each department a unique personality. To help guests stay up-to-date on what's fashion-forward, colorful displays show how separates can be mixed and matched to achieve a pulled-together, cutting-edge look.



listening to guests

Guest surveys are helping us make the grade in guest service. Every year, comprehensive customer satisfaction surveys are conducted for Target, Mervyn's and the Department Stores. These surveys identify what is most important to our guests. Twice a year, we measure our performance in all of our stores using "Report Cards" issued to guests as a supplement to the feedback cards available in stores each day for guest comments. We also measure our performance against key competitors in an annual competitive tracking survey. Our success depends on learning what's most important to guests—and this comprehensive research program offers first-hand feedback that is invaluable to meeting guests' unique needs.

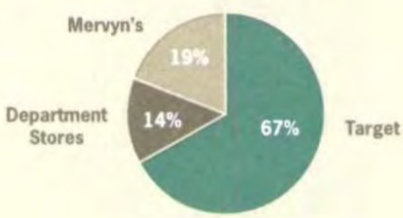
In 1995, we surveyed more than 1.5 million guests. We responded to their feedback by making necessary changes in our stores and how we do business. For example, at Target, we've invested in new cashier training to make checking out faster and friendlier, and in cross-training so team members can help in multiple departments.

Target

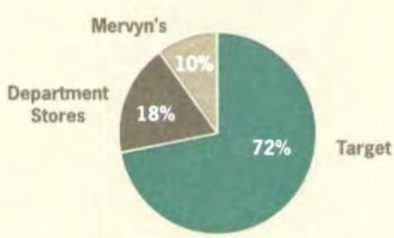
(Millions of Dollars)	1995	1994	1993
Revenues	$15,807	$13,600	$11,743
Operating Profit	$ 719	$ 732	$ 662
Stores	670	611	554
Retail Square Feet*	71,108	64,446	58,087

*In thousands; reflects total square feet, less office, warehouse and vacant space

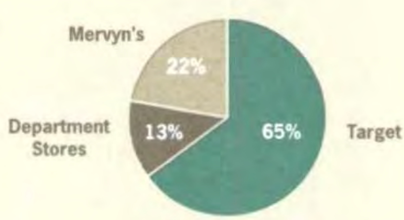
With clear growth strategies and our keen focus on expense reduction companywide, we are confident that we are on track to **deliver** significantly improved results in 1996.



Revenues
(percent of total)



Operating Profit
(percent of total)



Retail Square Feet
(percent of total)

Target's performance in 1995 showed strong comparable-store sales growth. Total revenues increased 16 percent, while comparable-store revenues rose 6 percent. Operating profit declined slightly as a result of a highly competitive pricing environment, more low-margin items in the sales mix and higher operating expenses due to wage-rate inflation.

In 1995, Target opened its first two SuperTargets, which combine grocery and general merchandise offerings. Guest response to these stores has been very favorable. The company plans to add six more super centers in 1996 as we continue to assess the growth opportunities of this strategy. Target will also invest in 60–70 traditional discount stores in 1996, with nearly half of the expansion in new markets like Buffalo, N.Y., Baltimore, Md., and Washington, D.C. To support its growth in existing markets and its East Coast expansion, Target will construct new distribution centers in Oregon and Virginia in 1996.

In 1996, Target is positioned to regain historical profit margins through continued strong sales growth, a stable gross margin formula and significant expense reductions.

	Retail Sq. Ft. in Thousands	No. of Stores
AZ	2,357	22
AR	186	2
CA	13,863	128
CO	2,342	22
FL	5,682	52
GA	2,381	23
ID	309	3
IL	4,915	43
IN	2,728	30
IA	1,620	17
KS	769	7
KY	660	7
LA	203	2
MI	4,403	42
MN	4,868	42
MS	116	1
MO	1,124	11
MT	299	3
NE	885	8
NV	841	8
NM	491	5
NC	1,341	13
ND	415	4
OH	1,539	14
OK	784	8
OR	944	9
SC	393	4
SD	392	4
TN	1,598	16
TX	8,200	77
WA	2,190	21
WI	2,089	20
WY	182	2
Total	**71,108**	**670**

Major Markets

Greater Los Angeles	66
Minneapolis/St. Paul	30
Chicago	29
Dallas/Ft. Worth	21
Detroit	21
Houston	21
Atlanta	20
San Francisco Bay Area	19
Denver	15
Miami/Ft. Lauderdale	15
Phoenix	15
San Diego	12
Seattle/Tacoma	12
Indianapolis	10

Employees (at year-end): 141,000

Target Locations

Mervyn's

(Millions of Dollars)	1995	1994	1993
Revenues	$ 4,516	$ 4,561	$ 4,436
Operating Profit	$ 100	$ 206	$ 179
Stores	295	286	276
Retail Square Feet*	24,113	23,130	22,273

Mervyn's experienced very weak results in the first half of 1995, but revenue and margin performance stabilized in the second half of the year as Mervyn's began to implement changes in its promotional and merchandising strategies. For the full year, total revenues declined 1 percent, while comparable-store revenues decreased 4 percent. Operating profit declined sharply compared with the prior year.

	Retail Sq. Ft. in Thousands	No. of Stores
AZ	1,226	15
CA	9,948	128
CO	925	12
FL	1,616	18
GA	562	7
ID	83	1
LA	538	7
MI	1,174	15
MN	852	6
NV	412	6
NM	180	2
OK	270	3
OR	551	7
TX	3,569	44
UT	761	8
WA	1,446	16
Total	**24,113**	**295**

Major Markets

Greater Los Angeles	51
San Francisco Bay Area	22
Dallas/Ft. Worth	13
Miami/Ft. Lauderdale	13
San Diego	12
Phoenix	11
Houston	10
Detroit	9
Seattle/Tacoma	9
Atlanta	7
Denver	7
Minneapolis/St. Paul	6
Employees (at year-end):	**34,000**

Changes introduced at Mervyn's in 1995 to improve performance included an increased level of promotional activity, a greater emphasis on national brands, broader merchandise assortments, expanded use of print advertising, and the introduction of a California theme into merchandise and advertising.

In 1995, Mervyn's opened 10 new stores, including a six-store entry into the Minneapolis/St. Paul market. In 1996, Mervyn's will add four to six new stores in existing markets.

Reflecting the promotional and merchandising changes implemented in 1995 and a $100 million expense-reduction program initiated at the beginning of the current fiscal year, Mervyn's is committed to delivering significantly improved profitability in 1996.

Mervyn's Locations

Department Stores

(Millions of Dollars)	1995	1994	1993
Revenues	$ 3,193	$ 3,150	$ 3,054
Operating Profit	$ 184	$ 270	$ 268
Stores	64	63	63
Retail Square Feet*	13,870	13,587	13,587

The Department Store Division posted flat total revenues in 1995, while comparable-store revenues declined 1 percent. Operating profit declined significantly as a result of higher markdowns, increased expenses and lower sales leverage.

	Retail Sq. Ft. in Thousands	No. of Stores
Dayton's		
MN	2,846	12
ND	297	3
SD	102	1
WI	373	3
Hudson's		
IN	246	2
MI	4,216	18
OH	187	1
Marshall Field's		
IL	4,079	16
OH	204	1
TX	713	4
WI	607	3
Total	**13,870**	**64**

Major Markets

Chicago	15
Minneapolis/St. Paul	10
Detroit	9
Employees (at year-end):	**39,000**

To improve performance in 1996 and beyond, the Department Store Division is expanding its assortment of "better" merchandise, introducing more unique items into its merchandise content, reducing the number of storewide promotions and improving its level of customer service through increased staffing on the selling floor. These strategic changes will return Dayton's, Hudson's and Marshall Field's to their heritage as fine department stores and fashion leaders in their local markets.

The Department Stores will open four new stores in 1996, including two Marshall Field's home stores in Chicago, a new Dayton's in Minneapolis/St. Paul and a new Hudson's store at Somerset North in Detroit.

1996 will be a transition year for the Department Stores as its new merchandising, promotional and service strategies are fully implemented. Profit and sales comparisons in the first half of the year will be difficult, but momentum will build in the second half of the year as customers increasingly respond.

Dept. Store Locations

(Millions of Dollars, Except Per Share Data)

Dayton Hudson Corporation's fiscal year net earnings were $311 million in 1995, compared with $434 million in 1994 and $375 million in 1993. Fully diluted earnings per share were $3.89 in 1995, $5.52 in 1994 and $4.77 in 1993. (References to earnings per share relate to fully diluted earnings per share.)

Operating profit in 1995 declined 17 percent from the prior year. Operating profit was $1,003 million in 1995, compared with $1,208 million in 1994 and $1,109 million in 1993. Operating profit is last-in, first-out (LIFO) earnings from operations before corporate expense, interest and income taxes. Target's operating profit declined 2 percent, compared with the prior year, while Mervyn's and the Department Store Division (DSD) reported declines of 52 percent and 32 percent, respectively. Operating profit results reflected a $17 million pre-tax LIFO charge in 1995, compared with a $19 million pre-tax LIFO credit in 1994. In addition, as a result of the sale of securitized accounts receivable, 1995 operating profit reflected a reduction of finance charge revenue, as well as a reduction of bad debt expense. The net impact, of approximately $10 million, was reflected proportionately (based on respective accounts receivable balances) as a reduction to each division's operating profit results. The overall net decrease was offset by a comparable savings in interest expense as a result of the replacement of debt with the sale proceeds.

The Corporation has undertaken several strategic initiatives to improve overall profitability in 1996:

- **Target** expects to recapture historical levels of profit margin through continued sales momentum, stabilization of its gross margin formula and up to $50 million in operating expense savings related to a broad-based cost-reduction program. In 1995, Target's operating profit as a percentage of revenues declined to 4.6 percent of total revenues from historical levels of 5 percent or more. We are optimistic that as a result of its initiatives, Target will return to the 5 percent operating profit level.
- **Mervyn's** is positioned to produce significantly higher operating profit in 1996, particularly in the first and second quarters due to the combination of promotional and merchandising changes implemented in the second half of 1995 and a $100 million annualized expense-reduction program initiated in fiscal 1996. Mervyn's goal is to make substantial progress in 1996 toward our long-term objective of realizing an operating profit level of 7 percent of total revenues.
- **DSD** expects to realize favorable operating profit results from the strategic changes that were initiated in the latter part of 1995. The critical elements of DSD's strategy include fewer storewide promotional events, a greater emphasis on better and more unique merchandise assortments and improved guest service. In 1996, we expect that DSD's new strategy will result in essentially flat annual comparable-store sales growth, with increased sales of regular-priced merchandise offset by a decline in promotional sales. The strategy, together with a $20 million expense-reduction program, is expected to result in improved profitability beginning in the fall of 1996.

The earnings per share variance analysis and its associated discussion presented below represents management's view of the business. It differs from the classifications in the Consolidated Results of Operations. Revenues include sales, as well as finance charges and other revenues. The gross margin rate includes cost of retail sales and excludes buying and occupancy costs. The operating expense rate includes buying and occupancy costs; selling, publicity and administrative expenses (excluding start-up and corporate and other expenses); depreciation and amortization; and taxes other than income taxes. Start-up expenses are costs associated with opening new stores and remodeling existing stores.

Strong growth at Target, our lowest gross margin and expense rate division, continues to impact our business mix. As a result, the Corporation's overall revenue growth and total operating expense rate were favorably affected, while the gross margin rate was unfavorably affected. If the revenue mix had remained constant with 1994, the gross margin rate variance would have been 49 cents more favorable and the operating expense rate variance would have been 60 cents less favorable. Looking forward, growth at Target is expected to continue to have an increasing impact on the Corporation's overall gross margin and expense rate structure.

The table below identifies the major factors in the change in earnings per share:

Earnings Variance Analysis	1995 vs. 1994		1994 vs. 1993	
Prior year's earnings per share		**$ 5.52**		$4.77
Change due to:				
Revenues		**1.63**		1.17
Gross margin rate:				
FIFO	**(1.96)**		.53	
LIFO provision	**(.29)**	**(2.25)**	(.58)	(.05)
Operating expense rate		**(.81)**		(.19)
Start-up expenses		**(.18)**		(.14)
Interest expense, net		**(.13)**		.13
Corporate and other expense, net		**.03**		(.07)
Income tax rate		**.08**		(.10)
Earnings per share		**$ 3.89**		$5.52

(Millions of Dollars, Except Per Share Data)

Revenues

The Corporation in 1995 reported a 10 percent increase in total revenues and a 3 percent increase in comparable-store revenues over 1994. Comparable-store revenues are revenues from stores open longer than a year. Target's 16 percent revenue increase reflected solid base-business growth and new-store expansion, as well as increased sales, finance-charge revenues and late-fee revenues due to the expansion of its proprietary credit card. Mervyn's total and comparable-store revenue declines were primarily due to low sales volume throughout the first half of the year combined with the transition to put its new strategy in place. DSD reported essentially flat revenues for the year, while comparable-store revenues declined primarily due to reduced guest response to frequent promotional events.

The impact of inflation on the Corporation's consolidated operations was minimal, and as a result, the overall comparable-store revenue increase closely approximated real growth.

Revenue growth in 1994 reflected a combination of new and comparable-store growth at Target, new store expansion at Mervyn's and growth in DSD's home and moderate-price merchandise areas. Increased finance-charge revenues at all three operating divisions also contributed to the overall revenue growth.

Revenue Growth	**1995**			1994	
	53 weeks	**52 weeks**		52 weeks	
	All Stores	**All Stores**	**Comp. Stores**	All Stores	Comp. Stores
Target	**16%**	**15%**	**6%**	16%	7%
Mervyn's	**(1)**	**(2)**	**(4)**	3	
DSD	**1**	**–**	**(1)**	3	3
Total	**10%**	**9%**	**3%**	11%	5%

One measure used to evaluate store productivity is revenues per square foot. Increased revenues per square foot at Target reflected solid base-business growth, partially offset by the inherent lower productivity of new stores. Mervyn's reduction from the prior year was primarily due to a comparable-store revenue decline combined with reduced productivity of its new stores. DSD's slight decrease in revenues per square foot was primarily due to the decrease in comparable-store revenues.

Revenues Per Square Foot* *(Dollars)*	**1995****	1994	1993
Target	**$230**	$222	$213
Mervyn's	**190**	200	204
DSD	**230**	232	225

* Thirteen-month average retail square feet.

** The 1995 revenues per square foot calculations exclude the 53rd week.

Gross Margin Rate

All three operating divisions contributed to the 1995 gross margin rate decline. In addition, the decline reflects Target's growing influence on the Corporation's overall margin structure, as well as the year-over-year impact of a $17 million LIFO charge in 1995, compared with a $19 million LIFO credit for the prior year.

- **Target's** gross margin rate declined slightly relative to 1994, primarily due to the strength of low-margin commodity businesses in the fourth quarter. In addition, a highly competitive environment made it difficult for Target to pass along increased merchandise costs. In 1996, Target expects to remain price-competitive, yet realize an improvement in the gross margin rate as a result of improved sales mix and reduced clearance markdowns.
- **Mervyn's** gross margin rate declined for the year, reflecting a sharp deterioration during the first half of the year due to significantly increased promotional markdowns without offsetting markup improvement. Beginning in the third quarter, there was a strong improvement in the gross margin rate over the first six months of 1995 as a result of increased markup offsetting markdown rates associated with the new strategy. The 1995 gross margin rate was also impacted by the year-over-year change in the LIFO provision. Looking forward, with all of the critical elements of the profit formula solidly in place, Mervyn's expects to generate significant gross margin rate improvement in 1996, particularly during the first half of the year.
- **DSD's** gross margin rate declined significantly in 1995 due to a substantial increase in clearance markdowns and the year-over-year change in the LIFO provision, partially offset by an improvement in markup. In 1996, as a result of substantially fewer promotional events, DSD's promotional markdown rate is expected to decline, resulting in an improvement in the gross margin rate.

Operating Profit

Revenues

(Millions of Dollars, Except Per Share Data)

The 1994 gross margin rate was essentially unchanged from 1993, reflecting markdown improvement at all three operating divisions, offset by a significantly lower LIFO credit. Target's gross margin rate declined in 1994, reflecting an improved promotional markdown rate more than offset by a lower markup and a lower LIFO credit. Mervyn's 1994 gross margin rate compared favorably to 1993, the result of lower promotional and clearance markdowns partially offset by lower markup. DSD's gross margin rate was essentially unchanged in 1994, as an improved clearance markdown rate was offset by a lower LIFO credit and higher promotional markdowns.

The LIFO provision was as follows:

LIFO Provision: (Expense)/Credit	1995	1994	1993
Target	$ –	$	$ 62
Mervyn's	(12)	8	7
DSD	(5)	11	22
Total	$ (17)	$ 19	$ 91
Per Share	$ (.14)	$ .15	$ .75

The LIFO provision is calculated based on inventory levels, markup rates and internally generated retail price indices. The 1995 LIFO charge reflected retail price inflation, particularly increased retail prices related to Mervyn's new strategy, partially offset by associated increases in markup rates. The 1994 LIFO credit reflected higher inventory levels associated with new store growth, as well as deflation in retail prices. The 1993 LIFO credit reflected deflation in retail prices at all three operating divisions, partially offset by a substantial decline in inventory levels at Mervyn's.

Operating Expense Rate

All three operating divisions contributed to the overall operating expense rate increase in 1995, which was partially offset by the favorable effect of Target's increasing impact on the overall expense rate structure. Looking forward to 1996, we will aggressively pursue the identification and realization of operating expense savings throughout the Corporation.

- **Target's** operating expense rate increased in 1995, principally due to higher store expenses associated with starting-wage rate increases. As one of its primary objectives for 1996, Target has begun a major initiative to reduce its operating expense rate over time and has developed a broad-based cost-reduction program that includes 1996 savings of $50 million related to store productivity improvements, as well as other cost reductions in headquarters and marketing.
- **Mervyn's** operating expense rate deteriorated in 1995, primarily reflecting lower sales leveraging, as well as increased marketing expenses. Favorable expense management in the fourth quarter partially offset the higher expenses that were reported during the first nine months. Mervyn's has formulated an expense-reduction program that is intended to significantly reduce costs, principally in the areas of stores, marketing and employee benefits. The majority of Mervyn's $100 million annualized expense savings are expected to be realized during fiscal 1996.
- **DSD's** operating expense rate rose in 1995 as a result of increased store and marketing costs, higher buying and occupancy costs, and lower sales leverage. DSD initiated a new strategy in the second half of 1995 that includes as one of its key elements an increased emphasis on improved guest service. In 1996, the incremental store costs related to the new strategy are expected to be offset by marketing expense savings resulting from substantially fewer promotional events and savings from centralizing certain store operational functions.

The 1994 operating expense rate increased over 1993 and included charges of $32 million, or 26 cents per share, for strategic store closings and relocations at Target, and $20 million, or 16 cents per share, for Mervyn's 11-store Colorado remodeling project. Target's operating expense rate was unchanged in 1994, reflecting favorable sales leveraging and expense efficiencies offset by charges related to its strategic efforts. In addition to the charge related to the Colorado stores, Mervyn's operating expense rate increased in 1994 due to additional advertising expense and lower sales leveraging. DSD's operating expense rate was higher in 1994 due to increased advertising expenses partially offset by other expense savings.

Start-Up Expenses

Start-up expenses rose in 1995 due primarily to growth in the number of new Target stores. A total of 76 new stores were opened in 1995, compared with 69 stores in 1994 and 62 stores in 1993. Start-up expenses are generally recognized evenly throughout the year in which the expenses are incurred.

Analysis of Operations

(Millions of Dollars, Except Per Share Data)

Interest Expense

Interest expense increased $16 million in 1995, as higher average debt balances, utilized to fund new store growth, remodeling programs and other capital expenditures, were partially offset by a lower average portfolio rate and interest savings related to the replacement of debt with the proceeds from the sale of securitized accounts receivable. The decrease in interest expense in 1994 of $20 million was the result of lower average financing requirements and a lower average portfolio rate.

Interest expense in 1996 is expected to increase to between $450 million and $475 million, reflecting the continued borrowing requirements for store expansion, remodeling programs and internal credit growth, partially offset by a decline in the average portfolio rate.

The Corporation has the option, but not the obligation, to call and refund approximately $325 million of sinking fund debentures at a premium in the second half of 1996. The Corporation has not committed to these transactions, which would result in a one-time charge of up to 14 cents per share, but would save the Corporation future annual interest expense of approximately 7 cents per share over the period of time the debentures would have otherwise remained outstanding. The actual amount of ongoing interest savings will depend on the Corporation's borrowing rates at the time of the refunding.

Corporate and Other Expense, Net

Corporate and other expense includes corporate headquarters expense, corporate charitable contributions that support our annual giving program of 5 percent of federally taxable income, and a variety of other items.

One of the Corporation's primary objectives is to increase overall operating effectiveness through the sharing of information and resources among its divisions. In 1995, the Corporation completed the consolidation of its credit operations, for which a pre-tax charge of $10 million, or 8 cents per share, was included in 1994 corporate and other expense. The Corporation has begun to realize, and expects to continue to achieve, divisional cost savings as a result of the consolidation of its credit operations. Consistent with its objective, in 1995 the Corporation committed to a three-year common information systems initiative aimed at producing additional profitability through improvements to gross margin, as well as cross-divisional efficiencies and cost savings.

Income Tax Rate

The effective tax rates were 38.0 percent, 39.2 percent and 38.2 percent in 1995, 1994 and 1993, respectively. The 1995 effective tax rate decreased from the prior year, primarily as a result of a greater impact of permanent differences on a lower earnings base. The increase in the 1994 effective tax rate over 1993 reflected the one-time benefit in 1993 from the adoption of SFAS No. 109, "Accounting for Income Taxes." In 1996, our tax rate is expected to return to a level approximating our 1994 rate.

Fourth Quarter Results

Due to the seasonal nature of the retail industry, fourth quarter operating results represent a substantially larger share of the total year operating results due to the inclusion of the holiday shopping season.

The Corporation's fourth quarter earnings per share were $2.94, reflecting a decline from $3.62 for the same quarter last year. The fourth quarter earnings per share comparison was unfavorably affected by a 1995 pre-tax LIFO charge of $17 million, or 14 cents per share, versus a credit of $9 million, or 7 cents per share, in 1994. Net earnings were $228 million for the quarter, compared with $279 million in 1994.

- **Target's** operating profit declined moderately, reflecting a 20 percent revenue increase offset by a lower gross margin rate and a higher operating expense rate. Comparable-store revenues increased 6 percent. Target's gross margin rate decline was the result of continued cost pressures in a competitive pricing environment and an adverse change in the business mix. The operating expense rate increased slightly due to higher store payroll and marketing expenses.
- **Mervyn's** operating profit declined in the quarter but was essentially unchanged from a year ago before the year-over-year impact of LIFO. Total revenues for the quarter rose 1 percent, while comparable-store revenues decreased 5 percent. The gross margin rate was unfavorable compared with the prior year as an improved markup was more than offset by a significant increase in promotional markdowns and the year-over-year change in the LIFO provision. The operating expense rate improved slightly.
- **DSD's** fourth quarter operating profit declined, while total revenues increased 2 percent and comparable-store revenues decreased 3 percent. The gross margin rate declined reflecting increased clearance markdowns, partially offset by markup and promotional markdown improvements, and the unfavorable year-over-year change in the LIFO provision. DSD's operating expense rate was higher than the prior year due to increased store and marketing costs in addition to lower sales leveraging.

Analysis of Financial Condition

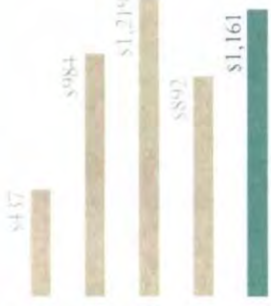
(Millions of Dollars)

Our financial condition remains strong, as our cash flow from operations was $1,161 million, driven by earnings before interest, income taxes, depreciation and amortization of $1,537 million. Internally generated funds will continue to be the most important component of our capital resources and, along with our ability to access a variety of financial markets, are expected to enable us to fund our expansion plans.

Average accounts receivable, net of the reduction for $400 million of securitized accounts receivable sold, grew 4 percent during 1995. The Corporation continued to realize a favorable impact on finance charge revenues and late fees as a result of the continued expansion of our proprietary credit cards. In 1995, we successfully completed the first phase of the roll-out of the Target Guest Card,℠ Target's proprietary credit card, which is expected to have a significant impact on accounts receivable growth and credit profitability in the future.

Inventory levels increased $241 million, in line with revenue and square footage growth. Importantly, this inventory growth was more than fully funded by an increase in accounts payable of $286 million.

Capital expenditures for 1995 were $1,522 million, compared with $1,095 million for fiscal year 1994. This increase reflected the additional capital invested in new stores and store remodels, and included the acquisition and remodel of several real estate sites related to Mervyn's 1995 entry into the Minneapolis-St. Paul market. Target comprised 70 percent of 1995 expenditures, while 18 percent, 11 percent and 1 percent were made by Mervyn's, DSD and Corporate, respectively. Net fixed assets increased $909 million, principally as a result of new store growth at Target. During 1995, Target added 65 new stores, Mervyn's opened 10 new stores and DSD opened one new store. Approximately 69 percent of total capital expenditures was for the building of new stores, 9 percent was for store remodeling and 22 percent was for distribution, information systems and other capital items.



Cash Flow From Operations

Capital Expenditures

Over the past five years, Target's square footage has grown at a compound annual rate of approximately 10 percent, and this growth rate is expected to continue into the foreseeable future.

Capital expenditures in 1996 are expected to be approximately $1,400 million for the construction of new stores, remodeling of existing stores and other capital support. As we continue to invest in each of our operating companies, the majority of new store capital continues to be invested in Target. In the upcoming year, Target plans to open 65 to 75 new stores in new and existing markets and construct two new distribution centers. Expansion plans for Target in 1996 include market entries into upstate New York, Maryland, Virginia and Washington D.C., as well as further testing of its super-center concept, including openings in Salt Lake City. Mervyn's plans to open four to six new stores, and DSD plans to open two new department stores and two new home stores, all in existing markets.

The Corporation's financing strategy is to ensure liquidity and access to capital markets, to control the amount of floating-rate debt and to maintain a balanced portfolio of maturities. Within these parameters, we continually seek to minimize our cost of borrowing. The average rate on our financings, including the sale of securitized accounts receivable, decreased from 8.8 percent in 1994 to 8.5 percent in 1995. We expect this rate to decline further in 1996.

A key to the Corporation's liquidity and capital market access is the maintenance of strong investment grade debt ratings. During 1995, Duff & Phelps and Standard & Poor's downgraded our long-term debt ratings to A- and BBB+, respectively, principally due to our 1995 financial performance. Moody's has placed the Corporation's A3 rating under review for a possible downgrade, and we expect that any potential action taken by Moody's would not materially affect our ability to access the capital markets. Our commercial paper debt ratings were D-1-, P-2 and A-2 by Duff & Phelps, Standard & Poor's, and Moody's, respectively. These ratings are sufficient to support commercial paper levels well in excess of the $948 million outstanding at year-end. In 1996 and beyond, we expect that a strong recovery in profitability would allow us to continue our capital expenditure plans while maintaining or improving our ratings.

In addition to the unsecured debt markets, the Corporation accessed the secured debt market in 1995 through our securitization of accounts receivable. The ability to access this market in the future provides the Corporation with an attractive alternative source of funds. Further liquidity is provided by $1.4 billion of committed credit lines obtained through a group of 27 domestic and international banks.

Performance Objectives

(Millions of Dollars)

Shareholder Return

Management's primary objective is to maximize shareholder value over time. This is accomplished through a combination of dividend income and share price appreciation, while a prudent and flexible capital structure is maintained.

Our total return to shareholders was approximately 11 percent for 1995. Though below broad market measures, this return was consistent with retail industry averages.

Measuring Value Creation

We measure shareholder value creation using a form of Economic Value Added[*] (EVA[*]), which we define generally as after-tax operating profit less a capital charge for all investment employed. The capital charge is an estimate of the Corporation's after-tax cost of capital, which has been adjusted for the age of our stores, recognizing that mature stores inherently have higher returns than newly opened stores. We estimate that the after-tax cost of capital for our retail business is 10 percent, while our credit operations' after-tax cost of capital is estimated to be 6 percent as a result of its ability to support higher debt levels. We expect to generate returns in excess of these costs of capital, thereby producing positive EVA.

We believe there is a high correlation between generating EVA and creating shareholder value. Maximizing EVA is our internal key to achieving our primary objective, which is to maximize shareholder value over time. EVA is used to evaluate our performance and to guide capital investment decisions. A significant portion of executive incentive compensation is tied to the achievement of targeted levels of annual EVA.

Financial Objectives

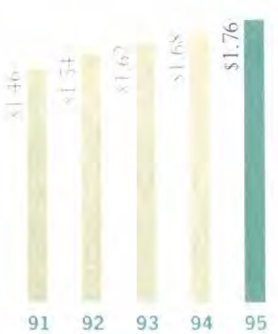
We believe that managing our business with a focus on EVA will assist us in achieving our objective of earnings per share growth of 15 percent per year over time. We intend to deliver these results, while maintaining a year-end debt ratio for our retail operations of 45 percent to 55 percent, which will ensure sufficient capital market access to fund our growth. We operated within our target range in 1995, 1994 and 1993, and plan to move our leverage to the middle of this range over time.

In evaluating our debt level, we separate our retail operations from our credit operations due to their inherently different performance characteristics. We view the appropriate capitalization of our credit business to be 88 percent debt and 12 percent equity, similar to ratios of comparable credit-card businesses.

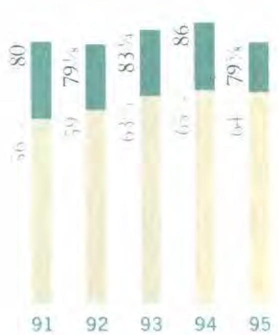
	1995	1994	1993
Debt Ratio[1]:			
Retail	**53%**	50%	53%
Credit	**88**	88	88
Total	**60%**	57%	59%
Balance sheet debt ratio	**56%**	55%	58%

[1] Includes the impact of off-balance sheet operating leases and $400 million of securitized accounts receivable sold, as if they were debt.

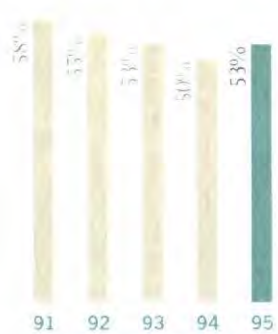
[*] Economic Value Added and EVA are registered trademarks.



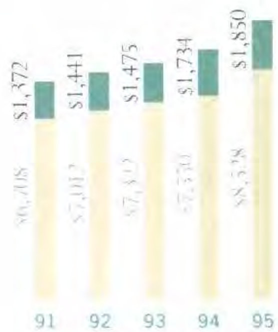
Dividends per Share
(dollars)



Market Price per Share
(dollars)
Low High



Retail Debt Ratio
(year-end percent)



Total Capitalization
Retail Operations
Credit Operations

Internal Credit

(Millions of Dollars)

Internal credit strategically supports our core retail operations and continues to demonstrate its profitability on a stand-alone basis. In 1995, we consolidated our credit operations in a single facility, devoted significant resources to expanding our credit-card business and completed a cost-effective sale of securitized accounts receivable. In addition, in 1995 we aggressively grew the business by successfully completing the initial phase of the roll-out of the Target Guest Card.

The operating margin of our credit operations increased by 12 percent to $194 million in 1995, the result of a substantial increase in credit revenues partially offset by an increase in expenses related to receivables growth. The increase in the bad debt provision over the prior year was associated with the new accounts created with the Target Guest Card in addition to an increase in delinquency rates. Operating profit was $169 million, including the one-time marketing costs associated with the expansion of the Target Guest Card and the net impact from the securitization of accounts receivable.

In 1996, we plan to significantly grow the credit business as we continue to expand the Target Guest Card, lower minimum payment terms on Mervyn's accounts and begin offering a loyalty incentive program for credit-card customers at DSD. In addition, we expect to achieve increased efficiencies and reduced expenses through further leveraging the combined credit operations and investing in credit information systems. As a result, we expect increased operating profit and EVA.

The following table illustrates the results of our credit operations:

Credit Operating Profit	1995	1994	1993
Revenues:			
Finance-charge revenues and late fees	**$ 313**	$ 248	$ 200
Merchant and deferred billing fees	**75**	65	63
Total revenues	**388**	313	263
Expenses:			
Bad debt provision	**104**	66	53
Operating expenses	**90**	74	70
Total expenses	**194**	140	123
Operating Margin	**194**	173	140
Target Guest Card introduction costs	**(15)**	(3)	
Net impact from securitization	**(10)**		
Operating Profit, net	**$ 169**	$ 170	$ 140
Average accounts receivable serviced	**$1,719**	$1,504	$1,329
Average accounts receivable owned	**$1,558**	$1,504	$1,329

In the preceding table, revenues, expenses and operating margin, as reflected, are associated with accounts receivable serviced. Merchant fees represent the fees charged to our retail operations on a basis similar to charges incurred for third-party credit cards. Deferred billing fees represent charges for carrying non-revenue-earning revolving balances. Both the merchant and deferred billing fees are intercompany transfer prices that are eliminated in consolidation. Operating expenses, measured on an all-inclusive basis, represent expenses for granting and operating credit. The net impact from securitization represents a reduction of revenues, as well as a reduction in the bad debt provision, resulting from the sale of $400 million of securitized accounts receivable. Average accounts receivable serviced represents an average of all accounts receivable, including the securitized accounts receivable sold, while the calculation of average accounts receivable owned reflects a reduction for the sale of securitized accounts receivable.

Recognizing credit's strategic support of our core retail operations, credit revenue, operating profit and EVA continue to be recorded in each of the operating divisions' results.

Notes to Consolidated Financial Statements

(Millions of Dollars)

Business Segment Comparisons	1995*	1994	1993	1992	1991	1990
Revenues						
Target	**$15,807**	$13,600	$11,743	$10,393	$ 9,041	$ 8,175
Mervyn's	**4,516**	4,561	4,436	4,510	4,143	4,055
Department Store Division	**3,193**	3,150	3,054	3,024	2,931	2,509
Total revenues	**$23,516**	$21,311	$19,233	$17,927	$16,115	$14,739
Operating profit						
Target	**$ 719**	$ 732	$ 662	$ 574	$ 458	$ 466
Mervyn's	**100**	206	179	284	284	366
Department Store Division	**184**	270	268	228	168	183
Total operating profit	**1,003**	1,208	1,109	1,086	910	1,015
Interest expense, net	**442**	426	446	437	398	325
Corporate and other	**60**	68	56	38	40	31
Earnings before income taxes	**$ 501**	$ 714	$ 607	$ 611	$ 472	$ 659
Operating profit as a percent of revenues						
Target	**4.6%**	5.4%	5.6%	5.5%	5.1%	5.7%
Mervyn's	**2.2**	4.5	4.0	6.3	6.9	9.0
Department Store Division	**5.8**	8.6	8.8	7.5	5.7	7.3
EBITDA (earnings before interest, income taxes, depreciation and amortization)						
Target	**$ 1,047**	$ 1,026	$ 926	$ 810	$ 667	$ 656
Mervyn's	**250**	351	325	419	401	473
Department Store Division	**297**	378	372	332	268	252
Corporate and other	**(57)**	(67)	(55)	(37)	(39)	(28)
Total EBITDA	**$ 1,537**	$ 1,688	$ 1,568	$ 1,524	$ 1,297	$ 1,353
EBITDA as a percent of revenues						
Target	**6.6%**	7.5%	7.9%	7.8%	7.4%	8.0%
Mervyn's	**5.5**	7.7	7.3	9.3	9.7	11.7
Department Store Division	**9.3**	12.0	12.2	11.0	9.1	10.0
Assets						
Target	**$ 7,330**	$ 6,247	$ 5,495	$ 4,913	$ 4,393	$ 3,722
Mervyn's	**2,776**	2,917	2,750	3,042	2,686	2,439
Department Store Division	**2,309**	2,392	2,240	2,292	2,317	2,261
Corporate and other	**155**	141	293	90	89	102
Total assets	**$12,570**	$11,697	$10,778	$10,337	$ 9,485	$ 8,524
Depreciation and amortization						
Target	**$ 328**	$ 294	$ 264	$ 236	$ 209	$ 190
Mervyn's	**150**	145	146	135	117	107
Department Store Division	**113**	108	104	104	100	69
Corporate and other	**3**	1	1	1	1	3
Total depreciation and amortization	**$ 594**	$ 548	$ 515	$ 476	$ 427	$ 369
Capital expenditures						
Target	**$ 1,067**	$ 842	$ 716	$ 571	$ 605	$ 374
Mervyn's	**273**	146	180	294	303	210
Department Store Division	**161**	96	80	72	106	1,155
Corporate and other	**21**	11	2	1	2	1
Total capital expenditures	**$ 1,522**	$ 1,095	$ 978	$ 938	$ 1,016	$ 1,740

* Consisted of 53 weeks.

The Department Store Division includes the acquisition of Marshall Field's and its results of operations from June 24, 1990, the effective date of acquisition.

In 1995, operating profit and EBITDA reflect a net reduction of $2 million, $5 million and $3 million for Target, Mervyn's and DSD, respectively, related to the sale of securitized accounts receivable.

Consolidated Results of Operations

(Millions of Dollars, Except Per Share Data)

	1995	1994	1993
Revenues	**$23,516**	$21,311	$19,233
Costs and Expenses			
Cost of retail sales, buying and occupancy	**17,527**	15,636	14,164
Selling, publicity and administrative	**4,043**	3,614	3,158
Depreciation and amortization	**594**	548	515
Interest expense, net	**442**	426	446
Taxes other than income taxes	**409**	373	343
Total Costs and Expenses	**23,015**	20,597	18,626
Earnings Before Income Taxes	**501**	714	607
Provision for Income Taxes	**190**	280	232
Net Earnings	**$ 311**	$ 434	$ 375
Primary Earnings Per Share	**$ 4.03**	$ 5.77	$ 4.99
Fully Diluted Earnings Per Share	**$ 3.89**	$ 5.52	$ 4.77
Average Common Shares Outstanding (Millions):			
Primary	**72.3**	72.0	71.8
Fully Diluted	**76.4**	76.3	76.1

See Notes to Consolidated Financial Statements contained throughout pages 23–34.

(Millions of Dollars, Except Per Share Data)

Summary of Accounting Policies

Organization Dayton Hudson Corporation (the Corporation) is a general merchandise retailer. The Corporation's operating divisions consist of Target, Mervyn's and the Department Store Division (DSD). Target, an upscale discount chain located in 33 states coast-to-coast, generated 67 percent of the Corporation's 1995 revenues. Mervyn's, a middle-market promotional department store located in 16 states in the West, South and Midwest, generated 19 percent of revenues. DSD offers trend leadership, quality merchandise and superior service throughout its department stores, located in nine states, primarily in the Midwest, and generated 14 percent of revenues.

Consolidation The financial statements include the accounts of the Corporation after elimination of material intercompany balances and transactions. All subsidiaries are wholly owned.

Use of Estimates Preparing financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fiscal Year The Corporation's fiscal year ends on the Saturday nearest January 31. Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years.

Fiscal Year	Ended	Weeks
1995	February 3, 1996	53
1994	January 28, 1995	52
1993	January 29, 1994	52

Reclassifications Certain prior-year amounts have been reclassified to conform to the current-year presentation.

Revenues

Finance-charge revenues and late fees on internal credit sales were \$292 million on sales of \$3.8 billion in 1995, \$248 million on sales of \$3.6 billion in 1994 and \$200 million on sales of \$3.5 billion in 1993. Leased department sales were \$153 million, \$156 million and \$165 million in 1995, 1994 and 1993, respectively.

Earnings Per Share

Primary earnings per share equals net earnings, less dividend requirements on Employee Stock Ownership Plan (ESOP) preferred stock, divided by the average number of common shares and common share equivalents outstanding during the period. Fully diluted earnings per share assumes conversion of the ESOP preferred stock into common stock, unless the conversion is antidilutive. Net earnings are adjusted for the additional expense required to fund the ESOP debt service, which results from the assumed replacement of the ESOP preferred dividends with common stock dividends, unless the assumed conversion is antidilutive. References to earnings per share relate to fully diluted earnings per share.

Advertising Costs

Advertising costs, included in selling, publicity and administrative expenses, are expensed as incurred and were \$670 million, \$604 million and \$494 million for 1995, 1994 and 1993, respectively.

Income Taxes

Reconciliation of tax rates is as follows:

Percent of Earnings Before Income Taxes	1995	1994	1993
Federal statutory rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal tax benefit	**4.9**	4.7	4.6
Targeted Jobs Tax Credits	**(.5)**	(.7)	(.4)
Dividends on preferred stock	**(1.1)**	(.6)	(.5)
Other	**(.3)**	.8	(.5)
Effective tax rate	**38.0%**	39.2%	38.2%

The components of the provision for income taxes were:

Income Tax Provision: Expense/(Benefit)	1995	1994	1993
Current:			
Federal	**\$158**	\$262	\$166
State	**38**	59	37
	196	321	203
Deferred:			
Federal	**(5)**	(34)	23
State	**(1)**	(7)	6
	(6)	(41)	29
Total	**\$190**	\$280	\$232

The components of the net deferred tax liability were:

Net Deferred Tax Liability	February 3, 1996	January 28, 1995
Gross deferred tax liabilities:		
Property and equipment	**\$319**	\$311
Inventory	**27**	34
Other	**47**	45
	393	390
Gross deferred tax assets:		
Self-insured benefits	**99**	93
Deferred compensation	**74**	66
Postretirement health care obligation	**44**	44
Purchase accounting	**28**	41
Allowance for doubtful accounts	**28**	19
Other	**70**	71
	343	334
Total	**\$ 50**	\$ 56

Consolidated Statements of Financial Position

(Millions of Dollars)

	February 3, 1996	January 28, 1995
Assets		
Current Assets		
Cash and cash equivalents	$ 175	$ 147
Accounts receivable	1,510	1,810
Merchandise inventories	3,018	2,777
Other	252	225
Total Current Assets	4,955	4,959
Property and Equipment		
Land	1,496	1,251
Buildings and improvements	5,812	5,208
Fixtures and equipment	2,482	2,257
Construction-in-progress	434	293
Accumulated depreciation	(2,930)	(2,624)
Property and Equipment, net	7,294	6,385
Other	321	353
Total Assets	$12,570	$11,697
Liabilities and Shareholders' Investment		
Current Liabilities		
Accounts payable	$ 2,247	$ 1,961
Accrued liabilities	957	1,045
Income taxes payable	137	175
Current portion of long-term debt and notes payable	182	209
Total Current Liabilities	3,523	3,390
Long-Term Debt	4,959	4,488
Deferred Income Taxes and Other	623	582
Convertible Preferred Stock, net	62	44
Shareholders' Investment		
Convertible preferred stock	257	277
Common stock	72	72
Additional paid-in capital	110	89
Retained earnings	3,044	2,882
Loan to ESOP	(80)	(127)
Total Shareholders' Investment	3,403	3,193
Total Liabilities and Shareholders' Investment	$12,570	$11,697

See Notes to Consolidated Financial Statements contained throughout pages 23–34.

(Millions of Dollars, Except Per Share Data)

Cash Equivalents

Cash equivalents represent short-term investments with a maturity of three months or less from the time of purchase.

Accounts Receivable

Accounts receivable are written off when the required payments have not been received for six consecutive months. Prior to an account being written off, an allowance is established for potential losses. The allowance for doubtful accounts was $69 million and $46 million at year-end 1995 and 1994, respectively.

In September 1995, the Corporation entered into a securitization transaction and transferred substantially all of its credit-card receivables to a trust in return for certificates representing undivided interests in the trust's assets. Concurrently, the Corporation sold to the public $400 million of three-year certificates, with a fixed rate of 6.1 percent, backed by the credit-card receivables. The issuance of Class A certificates was recorded as a sale, and no gain or loss was recorded on the transaction. The Corporation retained a $123 million issue of subordinated Class B asset-backed certificates, which is classified in accounts receivable at February 3, 1996. The Corporation owns the remaining undivided interest in the trust's assets and, through its credit-card subsidiary, continues to service all receivables for the trust.

Inventories

Inventories and the related cost of sales are accounted for by the retail inventory accounting method using the last-in, first-out (LIFO) basis and are stated at the lower of LIFO cost or market. Under this method, the cost of retail sales as reported in the Consolidated Results of Operations, represents current cost, thereby reflecting the effect of changing prices. The cumulative LIFO provision was $77 million and $60 million at February 3, 1996, and January 28, 1995, respectively.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives. Buildings and improvements are depreciated over eight to 55 years. Furniture and fixtures are depreciated over three to eight years. Accelerated depreciation methods are generally used for income tax purposes.

In 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 121 prescribes the accounting treatment for long-lived assets, identifiable intangibles and goodwill related to those assets when there are indications that the carrying values of those assets may not be recoverable. Management believes that the adoption of SFAS No. 121 in 1996 will not have a material adverse effect on the Corporation's results of operations or its financial condition taken as a whole.

Accounts Payable

Outstanding drafts included in accounts payable were $344 million and $352 million at year-end 1995 and 1994, respectively.

Leases

Assets held under capital leases are included in property and equipment and are charged to depreciation and interest over the life of the lease. Operating leases are not capitalized, and lease rentals are expensed. Rent expense on buildings, classified in buying and occupancy, includes percentage rents that are based on a percentage of retail sales over stated levels. Total rent expense was $144 million, $123 million and $100 million in 1995, 1994 and 1993, respectively.

Most of the long-term leases include options to renew, with terms varying from five to 30 years. Certain leases also include options to purchase the property.

Future minimum lease payments required under noncancelable lease agreements existing at February 3, 1996, were:

Future Minimum Leases Payments	Operating Leases	Capital Leases
1996	$ 124	$ 19
1997	108	19
1998	103	18
1999	94	18
2000	76	17
After 2000	661	153
Total future minimum lease payments	1,166	244
Less: Interest *	(524)	(127)
Present value of minimum lease payments	$ 642	$117**

* Calculated using the interest rate at inception for each lease (the weighted average interest rate was 9.5 percent).

** Includes current portion of $6 million.

Commitments and Contingencies

Commitments for the future purchase of real estate, construction of new facilities, remodeling of existing facilities and other equipment purchases were approximately $382 million at February 3, 1996. The Corporation is exposed to claims and litigation arising out of the ordinary course of business. Management, after consulting with legal counsel, believes that the currently identified claims and litigation will not have a material adverse effect on the Corporation's results of operations or its financial condition taken as a whole.

Consolidated Statements of Cash Flows

(Millions of Dollars)

	1995	1994	1993
Operating Activities			
Net earnings	**$ 311**	$ 434	$ 375
Reconciliation to cash flow:			
Depreciation and amortization	**594**	548	515
Deferred tax provision: (benefit)/expense	**(6)**	(41)	29
Other noncash items affecting earnings	**52**	38	55
Changes in operating accounts providing/(requiring) cash:			
Accounts receivable	**(100)**	(274)	(22)
Sale of securitized accounts receivable	**400**	—	—
Merchandise inventories	**(241)**	(280)	121
Accounts payable	**286**	307	58
Accrued liabilities	**(88)**	147	63
Income taxes payable	**(38)**	30	20
Other	**(9)**	(17)	5
Cash Flow Provided by Operations	**1,161**	892	1,219
Investing Activities			
Expenditures for property and equipment	**(1,522)**	(1,095)	(969)
Proceeds from disposals of property and equipment	**17**	89	79
Cash Flow Required for Investing Activities	**(1,505)**	(1,006)	(890)
Net Financing (Requirements)/Sources	**(344)**	(114)	329
Financing Activities			
Increase/(decrease) in notes payable, net	**501**	247	(23)
Additions to long-term debt	**150**	—	528
Reductions of long-term debt	**(210)**	(199)	(581)
Principal payments received on loan to ESOP	**57**	58	61
Dividends paid	**(148)**	(144)	(138)
Other	**22**	(22)	28
Cash Flow Provided by/(Used for) Financing Activities	**372**	(60)	(125)
Net Increase/(Decrease) in Cash and Cash Equivalents	**28**	(174)	204
Cash and Cash Equivalents at Beginning of Year	**147**	321	117
Cash and Cash Equivalents at End of Year	**$ 175**	$ 147	$ 321

Amounts in these statements are presented on a cash basis and therefore may differ from those shown in other sections of this Annual Report. Cash paid for income taxes was $229 million, $292 million and $183 million for 1995, 1994 and 1993, respectively. Cash paid for interest (including interest capitalized) was $451 million, $431 million and $441 million for 1995, 1994 and 1993, respectively.

See Notes to Consolidated Financial Statements contained throughout pages 23–34.

(Millions of Dollars, Except Per Share Data)

Lines of Credit

At February 3, 1996, two committed credit agreements totaling $1.4 billion were available from various lending institutions. There were no balances outstanding at any time during the year related to these agreements. A fee is paid for the availability under these agreements, and the Corporation may borrow at various specified rates. Fees paid under these agreements were $1 million in 1995 and 1994, and $2 million in 1993.

Long-Term Debt and Notes Payable

At February 3, 1996, $948 million of notes payable were outstanding, $840 million of which was classified as long-term as it was supported by the Corporation's committed credit agreement that expires in 2000. The remaining $108 million of notes payable were classified as current portion of long-term debt and notes payable as it was supported by a short-term committed credit agreement. The average amount of notes payable outstanding during 1995 was $884 million at a weighted-average interest rate of 6.0 percent.

In 1995, the Corporation issued $150 million of long-term debt at 7.5 percent, maturing in 1999. The proceeds from the issuance were used for general corporate purposes.

At year-end, the debt portfolio was as follows:

Long-Term Debt and Notes Payable	February 3, 1996	January 28, 1995
Notes payable	**$ 948**	$ 447
Notes and debentures:		
Due 1995–1999; weighted-average rate of 8.2%*	**490**	545
Due 2000–2004; weighted-average rate of 9.0%	**1,037**	1,037
Due 2005–2009; weighted-average rate of 9.4%	**201**	201
Due 2010–2014; weighted-average rate of 9.3%	**549**	549
Due 2015–2019; weighted-average rate of 9.5%	**514**	514
Due 2020–2023; weighted-average rate of 8.8%	**1,285**	1,285
Total long-term debt and notes payable	**5,024**	4,578
Capital lease obligations	**117**	119
Less: current portion	**(182)**	(209)
Long-term debt and notes payable	**$4,959**	$4,488

* Reflects the weighted average rate as of February 3, 1996. The weighted-average rate as of January 28, 1995, was 8.8%.

Required principal payments on long-term debt and notes payable over the next five years, excluding capital lease obligations, are $176 million in 1996, $100 million in 1997, $170 million in 1998, $152 million in 1999 and $1,228 million in 2000.

The Corporation has two interest rate swap agreements that effectively exchange fixed interest rates for variable interest rates on $175 million of long-term debt without the exchange of underlying principal. The interest rate swaps are used to manage the portfolio mix of fixed- and floating-rate debt, within established parameters. The difference to be paid or received varies as short-term interest rates change and is accrued and recognized as an adjustment to interest expense. The agreements expire in the first quarter 1997. Market risks may arise from the movements in interest rates. The Corporation's credit risk is limited to the fair market value of the interest rate swaps.

Subsequent to year-end, the Corporation issued $300 million of long-term debt at 6.4 percent, maturing in 2003. The proceeds from the issuance were used for general corporate purposes.

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments were as follows:

	February 3, 1996		January 28, 1995	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial instruments recorded as liabilities:				
Long-term debt and notes payable	**$5,024**	**$5,460**	$4,578	$4,701
Off-balance sheet financial instruments in a (receivable)/payable position:				
Interest rate swaps	**–**	**(3)**	–	7

The fair value of long-term debt and interest rate swaps was estimated using discounted cash flow analysis, based on the Corporation's incremental interest rates for similar types of financial instruments.

Consolidated Statements of Shareholders' Investment

(Millions of Dollars, Except Share Data)

	Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Loan to ESOP	Total
January 30, 1993	$280	$71	$ 58	$2,357	$(200)	$2,566
Consolidated net earnings	—	—		375		375
Dividends declared	—	—		(140)		(140)
Tax benefit on unallocated preferred stock dividends	—		6			6
Conversion of preferred stock and other	(7)	—	6			(1)
Net reduction in loan to ESOP		—			39	39
Stock option activity	—	1	3			4
January 29, 1994	273	72	73	2,592	(161)	2,849
Consolidated net earnings	—	—		434		434
Dividends declared	—			(144)		(144)
Tax benefit on unallocated preferred stock dividends	—		6			6
Conversion of preferred stock and other	4	—	7			11
Net reduction in loan to ESOP	—				34	34
Stock option activity	—		3			3
January 28, 1995	277	72	89	2,882	(127)	3,193
Consolidated net earnings	—	—		311		311
Dividends declared	—	—		(149)		(149)
Tax benefit on unallocated preferred stock dividends	—	—	5			5
Conversion of preferred stock and other	(20)	—	11			(9)
Net reduction in loan to ESOP	—	—			47	47
Stock option activity	—	—	5			5
February 3, 1996	**$257**	**$72**	**$110**	**$3,044**	**$(80)**	**$3,403**

Common Stock

Authorized 500,000,000 shares, $1.00 par value; 71,964,840 shares issued and outstanding at February 3, 1996; 71,690,360 shares issued and outstanding at January 28, 1995.

Preferred Stock

Authorized 5,000,000 shares; Series B ESOP Convertible Preferred Stock $.01 par value, 401,494 shares issued and outstanding at February 3, 1996; 416,675 shares issued and outstanding at January 28, 1995. Each share converts into 10 shares of the Corporation's common stock, has voting rights equal to the equivalent number of common shares and is entitled to cumulative annual dividends of $56.20. Under certain circumstances, the shares may be redeemed at the election of the Corporation or the ESOP.

Junior Preferred Stock Rights

The Corporation declared a distribution of shares of preferred share purchase rights in 1986. Terms of the plan provide for a distribution of one preferred share purchase right for each outstanding share of the Corporation's common stock. Each right will entitle shareholders to buy one-hundredth of a share of a new series of junior participating preferred stock at an exercise price of $150, subject to adjustment. The rights will be exercisable only if a person or group acquires ownership of 20 percent or more of the Corporation's common stock or announces a tender offer to acquire 30 percent or more of the common stock.

See Notes to Consolidated Financial Statements contained throughout pages 23–34.

(Millions of Dollars, Except Per Share Data)

Stock Option Plan

The Corporation has a stock option plan for key employees. Options have included Incentive Stock Options, Non-Qualified Stock Options or a combination of the two. A majority of the options contain a vesting schedule so that 12 months after the grant date 25 percent of the options become exercisable, with another 25 percent vesting after each succeeding 12 months. These options are cumulatively exercisable and expire no later than 10 years after the date of the grant. In 1995, the Corporation adopted a non-qualified stock option plan for nonemployee members of its Board of Directors. Such stock option grants become exercisable after one year and expire no later than 10 years from the date of the grant. Stock options are awarded at fair market value on the grant date. When exercised, proceeds are credited to shareholders' investment and no expense is incurred.

The Corporation has a performance share and restricted stock award plan for key employees. Performance shares are earned to the extent that certain financial goals are met over a four-year period. Performance shares and restricted stock awards are placed in escrow until retirement, subject to certain further restrictions.

The Corporation follows the guidance in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations to account for its stock-based plans.

Options, Performance Shares and Restricted Stock Awards Outstanding

	Options		Shares	Perform-	Restricted
	Number of Shares	Price Per Share	Exer-cisable	ance Shares	Stock Awards
Jan. 30, 1993	1,154,418	$30.25-$75.50	590,807	207,758	
Granted	205,268	65.25- 83.25			
Canceled	(16,856)	53.00- 78.00			
Exercised	(70,009)	30.25- 75.50			
Jan. 29, 1994	1,272,821	30.25- 83.25	654,624	247,689	30,494
Granted	200,886	75.31- 79.63			
Canceled	(69,538)	59.81- 78.00			
Exercised	(78,169)	30.25- 78.00			
Jan. 28, 1995	1,326,000	30.25- 83.25	837,723	247,956	43,562
Granted	497,459	66.38- 74.50			
Canceled	(34,730)	59.81- 78.00			
Exercised	(127,586)	30.25- 65.75			
Feb. 3, 1996	**1,661,143**	**$30.25-$83.25**	**895,315**	**267,901**	**59,873**

The number of shares of unissued common stock reserved for future grants under the stock option plans were 2,543,805 at February 3, 1996, and 2,961,931 at January 28, 1995.

Pension Plans

The Corporation has three defined benefit pension plans that cover all employees who meet certain requirements of age, length of service and hours worked per year. The benefits provided are based upon years of service and the employee's compensation. Contributions to the pension plans, which are made solely by the Corporation, are determined by an outside actuarial firm. To compute net pension cost, the actuarial firm estimates the total benefits that will ultimately be paid to eligible employees and then allocates these costs to service periods. The period over which unrecognized pension costs and credits are amortized, including prior service costs and actuarial gains and losses, is based on the remaining service period for those employees expected to receive pension benefits.

Net Pension Expense		**1995**	1994	1993
Service cost-benefits earned during the period		**$ 21**	$ 25	$ 22
Interest cost on projected benefit obligation		**35**	33	32
Return on assets	current	**(87)**	(10)	(50)
	deferred	**47**	(26)	14
Total		**$ 16**	$ 22	$ 18

Actuarial Assumptions	**1995**	1994	1993
Discount rate	**7½%**	8½%	7¼%
Expected long-term rate of return on plans' assets	**9**	9	9½
Average assumed rate of compensation increase	**4½**	5	5¼

	December 31,	
Funded Status	**1995**	1994
Actuarial present value of		
Vested benefit obligation	**$412**	$ 342
Accumulated benefit obligation	**438**	364
Projected benefit obligation	**503**	425
Fair market value of plans' assets*	**518**	455
Plans' assets in excess of projected benefit obligation	**15**	30
Unrecognized prior service cost	**2**	3
Unrecognized net actuarial loss	**21**	8
Prepaid pension asset	**$ 38**	$ 41

* Plans' assets consist primarily of equity and fixed income securities.

(Millions of Dollars, Except Per Share Data)

Employee Stock Ownership Plan

The Corporation sponsors a defined contribution employee benefit plan. Employees who meet certain eligibility requirements of age, length of service and hours worked per year can participate in the plan by investing up to 15 percent of their compensation. The Corporation's match equals 100 percent of each employee's contribution up to 5 percent of each participant's total compensation, within ERISA limits. The Corporation's contribution to the plan is invested in the ESOP.

In 1989, the Corporation lent $379 million to the ESOP at a 9 percent interest rate. Proceeds from the loan were used by the ESOP to purchase 438,353 shares of Series B ESOP Convertible Preferred Stock of the Corporation. The original issue value of the ESOP preferred stock of $864.60 per share is guaranteed by the Corporation.

The Corporation's contributions to the ESOP, plus dividends paid on all preferred stock held by the ESOP, are used to repay the loan principal and interest. Cash contributed by the Corporation to the ESOP was $45 million in 1995, $50 million in 1994 and $61 million in 1993. Dividends earned on shares held by the ESOP were $23 million in 1995 and $24 million each in 1994 and 1993. The dividends on allocated preferred stock are paid to participants' accounts in additional shares of preferred stock. Benefits expense, calculated based on the shares allocated method, was $39 million in 1995 and $33 million in 1994 and 1993.

Upon a participant's termination, the Corporation is required to exchange at fair value each share of preferred stock for 10 shares of common stock and cash, if any. At February 3, 1996, 280,512 shares of the ESOP preferred stock were allocated to participants and had a fair value of $273 million.

The convertible preferred stock and related loan to ESOP are classified as Shareholders' Investment to the extent the preferred stock is permanent equity. The remaining convertible preferred stock of $90 million, net of the related loan to ESOP of $28 million at February 3, 1996, represents the Corporation's maximum cash obligation at year-end, measured by the market value difference between the preferred stock and common stock, and is excluded from Shareholders' Investment.

Postretirement Health Care Benefits

Certain health care benefits are provided for retired employees. Employees eligible for retirement become eligible for these benefits if they meet minimum age and service requirements and agree to contribute a portion of the cost. The Corporation has the right to modify or terminate these benefits.

Accumulated Postretirement Benefit Obligation	December 31, 1995	1994
Retirees	**$ 51**	$ 47
Fully eligible active plan participants	**18**	22
Other active plan participants	**11**	10
Prior service cost	**(4)**	(5)
Unrecognized gain	**27**	29
Total	**$103**	$103

Net Periodic Cost	1995	1994	1993
Service cost — benefits earned during the period	**$1**	$2	$1
Interest cost on accumulated benefits	**5**	6	8
Total	**$6**	$8	$9

An increase in the cost of covered health care benefits of 7½ percent is assumed for fiscal 1996. The rate is assumed to decrease incrementally to 6 percent in the year 2000 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, a 1 percent increase in the health care trend rate would increase the accumulated postretirement benefit obligation by $5 million at February 3, 1996, and the net periodic cost by $.5 million for the year. The discount rate used in determining the accumulated postretirement benefit obligation was 7½ percent for 1995, 8½ percent for 1994 and 7¼ percent for 1993.

(Millions of Dollars, Except Per Share Data)

Credit Card Subsidiary

Retailers National Bank (the Bank), a national credit-card bank and a wholly owned subsidiary, was chartered on January 7, 1994. The Bank issues and services the proprietary credit cards of the Corporation's operating divisions. At inception, the Bank acquired the outstanding accounts receivable of Target and DSD and acquired the outstanding accounts receivable of Mervyn's in 1994. In its Statement of Financial Position at January 28, 1995, the Bank reflected the accounts receivable retained after the sale of 80 percent of the accounts receivable to a wholly owned subsidiary of the Corporation (the Affiliate).

In September 1995, the Bank transferred its remaining 20 percent undivided interest to the Affiliate and concurrently purchased a 5 percent undivided interest in the accounts receivable of a newly formed trust, created in connection with the securitization transaction. The Bank continues to service all of the accounts receivable on behalf of the trust. The accounts receivable and all related income and expenses of the Bank and the Affiliate are included in each operating division's results.

Net earnings for the Bank on a stand-alone basis, before intercompany eliminations, were $34 million and $69 million in 1995 and 1994, respectively, and were not material in 1993. The following are condensed statements of financial position for the Bank.

Condensed Statements of Financial Position	February 3, 1996	January 28, 1995
Assets:		
Accounts receivable, net	**$ 91**	$346
Other assets	**20**	43
Total	**$111**	$389
Liabilities and investment:		
Liabilities, principally note payable due to the Corporation	**$ 89**	$207
Investment of the Corporation	**22**	182
Total	**$111**	$389

Quarterly Results (Unaudited)

The same accounting policies are followed in preparing quarterly financial data as are followed in preparing annual data. Costs directly associated with revenues, such as cost of retail sales and percentage rent on leased stores, are allocated based on revenues. Certain other costs not directly associated with revenues, such as benefit plan expenses and real estate taxes, are allocated evenly throughout the year.

The table below summarizes results by quarter for 1995 and 1994:

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total Year	
	1995	1994	**1995**	1994	**1995**	1994	**1995**	1994	**1995**	1994
Revenues	**$4,757**	$4,465	**$5,236**	$4,802	**$5,573**	$5,046	**$7,950**	$6,998	**$23,516**	$21,311
Gross Profit (a)	**$1,253**	$1,212	**$1,340**	$1,283	**$1,460**	$1,351	**$1,936**	$1,829	**$ 5,989**	$ 5,675
Net Earnings	**$ 11**	$ 39	**$ 28**	$ 49	**$ 44**	$ 67	**$ 228**	$ 279	**$ 311**	$ 434
Primary Earnings Per Share (b)	**$ .10**	$ .48	**$ .32**	$ .62	**$ .54**	$ .86	**$ 3.08**	$ 3.81	**$ 4.03**	$ 5.77
Fully Diluted Earnings Per Share (b)	**$ .10**	$ .47	**$ .32**	$ .61	**$ .53**	$ .83	**$ 2.94**	$ 3.62	**$ 3.89**	$ 5.52
Dividends Declared Per Share	**$ .44**	$ .42	**$ .44**	$ .42	**$ .44**	$ .42	**$ .44**	$ .42	**$ 1.76**	$ 1.68
Common Stock Price (c)										
High	**$ 74¾**	$ 79	**$ 78¼**	$ 83⅜	**$ 79⅝**	$ 86	**77½**	$ 84	**79⅝**	$ 86
Low	**65⅝**	65¼	**64½**	76¼	**69⅞**	73⅜	**68⅝**	67[illegible]	**64½**	65½

(a) Gross profit is revenues less cost of retail sales, buying and occupancy. The LIFO provision, included in gross profit, is adjusted each quarter for estimated changes in year-end inventory levels, markup rates and internally generated retail price indices. A final adjustment is recorded in the fourth quarter for the difference between the prior quarters' estimates and the actual total year LIFO provision.

(b) Earnings per share are computed independently for each of the quarters presented. The sum of the quarters may not equal the total year amount due to the impact of changes in average quarterly shares outstanding.

(c) The Corporation's common stock is listed on the New York Stock Exchange and Pacific Stock Exchange. At March 21, 1996, there were 10,830 shareholders of record and the common stock price was $85.88 per share.

Report of Independent Auditors

Board of Directors and Shareholders
Dayton Hudson Corporation

We have audited the accompanying consolidated statements of financial position of Dayton Hudson Corporation and subsidiaries as of February 3, 1996, and January 28, 1995, and the related consolidated results of operations, cash flows and shareholders' investment for each of the three years in the period ended February 3, 1996. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dayton Hudson Corporation and subsidiaries at February 3, 1996, and January 28, 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended February 3, 1996, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Minneapolis, Minnesota
March 13, 1996

Report of Management

Management is responsible for the consistency, integrity and presentation of the information in the Annual Report. The consolidated financial statements and other information presented in this Annual Report have been prepared in accordance with generally accepted accounting principles and include necessary judgments and estimates by management.

To fulfill our responsibility, we maintain comprehensive systems of internal control designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with established procedures. The concept of reasonable assurance is based upon a recognition that the cost of the control should not exceed the benefit derived. We believe our systems of internal control provide this reasonable assurance.

The Board of Directors exercises its oversight role with respect to the Corporation's systems of internal control primarily through its Audit Committee, which is composed of five independent directors. The Committee oversees the Corporation's systems of internal control, accounting practices, financial reporting and audits to ensure their quality, integrity and objectivity are sufficient to protect shareholders' investments. The Committee's report appears on this page.

In addition, our consolidated financial statements have been audited by Ernst & Young LLP, independent auditors, whose report also appears on this page. As a part of its audit, Ernst & Young LLP develops and maintains an understanding of the Corporation's internal accounting controls and conducts such tests and employs such procedures as it considers necessary to render its opinion on the consolidated financial statements. Their report expresses an opinion as to the fair presentation, in all material respects, of the consolidated financial statements and is based on independent audits made in accordance with generally accepted auditing standards.

Bob Ulrich

Robert J. Ulrich
Chairman of the Board and
Chief Executive Officer

Douglas A. Scovanner

Douglas A. Scovanner
Senior Vice President and
Chief Financial Officer

JABogdan

JoAnn Bogdan
Controller and
Chief Accounting Officer

March 13, 1996

Report of Audit Committee

The Audit Committee met three times during fiscal 1995 to review the overall audit scope, plans for internal and independent audits, the Corporation's systems of internal control, emerging accounting issues, officer and director expenses, audit fees and retirement plans. The Committee also met individually with the internal auditors and independent auditors, without management present, to discuss the results of their audits. The Committee encourages the internal and independent auditors to communicate closely with the Committee.

Audit Committee results were reported to the full Board of Directors, and the Corporation's annual financial statements were reviewed and approved by the Board before issuance. The Audit Committee also recommended to the Board of Directors that the independent auditors be reappointed for fiscal 1996, subject to the approval of the shareholders at the annual meeting.

March 13, 1996

Summary Financial and Operating Data

(Millions of Dollars, Except Per Share Data)

		1995[a]	1994	1993	1992	1991	1990	1989[a]	1988	1987	1986	1985
Income Statement Data												
Revenues	$	**23,516**	21,311	19,233	17,927	16,115	14,739	13,644	12,204	10,677	9,259	8,255
Cost of retail sales, buying and occupancy	$	**17,527**	15,636	14,164	13,129	11,751	10,652	9,890	8,980	7,950	6,778	5,977
Selling, publicity and administrative	$	**4,043**	3,614	3,158	2,961	2,784	2,478	2,264	2,038	1,769	1,538	1,366
Depreciation and amortization	$	**594**	548	515	476	427	369	315	290	231	183	158
Interest expense, net	$	**442**	426	446	437	398	325	267	218	152	118	100
Earnings from continuing operations before income taxes	$	**501**	714	607	611	472	659	678	472	399	494	518
Income taxes	$	**190**	280	232	228	171	249	268	185	171	239	237
Net earnings: Continuing (b)	$	**311**	434	375	383	301	412	410	287	228	255	281
Consolidated (c)	$	**311**	434	375	383	301	412	410	287	228	310	284
Financial Position Data												
Working capital	$	**1,432**	1,569	1,436	1,450	1,452	1,236	912	978	922	1,193	1,130
Property and equipment, net	$	**7,294**	6,385	5,947	5,563	5,102	4,525	3,523	3,486	3,106	2,517	1,770
Total assets	$	**12,570**	11,697	10,778	10,337	9,485	8,524	6,684	6,523	6,076	5,282	4,418
Long-term debt and notes payable	$	**4,959**	4,488	4,279	4,330	4,227	3,682	2,510	2,383	1,819	1,377	922
Shareholders' investment	$	**3,403**	3,193	2,849	2,566	2,279	2,067	1,753	1,861	1,986	2,180	1,948
Per Common Share Data												
Fully diluted net earnings per share:												
Continuing (b)	$	**3.89**	5.52	4.77	4.82	3.72	5.20	5.35	3.45	2.41	2.62	2.89
Consolidated (c)	$	**3.89**	5.52	4.77	4.82	3.72	5.20	5.35	3.45	2.41	3.19	2.92
Cash dividend declared	$	**1.76**	1.68	1.62	1.54	1.46	1.35	1.17	1.04[illegible]	.94	.86	.78[illegible]
Market price high	$	**79⅝**	86	83[illegible]	79[illegible]	80	78[illegible]	66[illegible]	45[illegible]	63	58[illegible]	48[illegible]
Market price low	$	**64½**	65[illegible]	63[illegible]	59	56[illegible]	47	43	31[illegible]	21	40	35[illegible]
Market price year-end close	$	**74⅞**	69	65[illegible]	77[illegible]	65[illegible]	65[illegible]	61[illegible]	42[illegible]	34[illegible]	41[illegible]	45[illegible]
Common shareholders' investment	$	**44.82**	42.45	38.27	34.83	31.31	28.82	24.73	23.97	23.15	22.38	20.04
Other Data												
Average common shares outstanding (millions)		**71.8**	71.6	71.5	71.3	71.2	71.0	75.9	83.3	94.8	97.3	97.1
Fully diluted average common shares outstanding (millions)		**76.4**	76.3	76.1	75.9	75.9	75.7	76.6	83.3	94.8	97.3	97.1
Capital expenditures	$	**1,522**	1,095	978	938	1,016	1,740	603	681	839	941	403
Number of stores: Target		**670**	611	554	506	463	420	399	341	317	246	226
Mervyn's		**295**	286	276	265	245	227	221	213	199	175	148
DSD		**64**	63	63	63	62	61	37	37	37	37	37
Total Stores		**1,029**	960	893	834	770	708	657	591	553	458	411
Total retail square footage (thousands)		**109,091**	101,163	93,947	87,362	80,309	73,769	65,191	58,596	55,028	45,890	42,051
Number of employees		**214,000**	194,000	174,000	170,000	168,000	161,000	144,000	128,000	134,000	111,000	98,000

The Summary Financial and Operating Data should be read in conjunction with the Notes to Consolidated Financial Statements contained throughout pages 23–34.

(a) Consisted of 53 weeks.

(b) Includes cumulative income effect of two accounting changes, net, of $2 million ($.03 per share) in 1990. Before extraordinary item in 1986.

(c) Includes 1986 gain on sale of B. Dalton Bookseller of $85 million ($.88 per share) and extraordinary charge of $32 million ($.33 per share) related to a debt repurchase. Also for 1985–1986 includes discontinued operations of B. Dalton Bookseller.

Giving Back to our Communities.

Since our first store opened its doors, we have made a commitment to be involved in strengthening our communities and positively impacting the lives of our guests, team members and all community citizens. In 1996, we will celebrate 50 years of investing 5 percent of our federally taxable income in our store communities. No other retailer has this tradition of community involvement.

In 1995, the giving budget for our three operating divisions and the Dayton Hudson Foundation totaled nearly $37 million, which included $2.8 million in corporate contributions to 285 United Way organizations in 34 states. Employees added another $10.5 million, bringing the total 1995 contribution to the United Way by Dayton Hudson and its employees to $13.3 million. In addition to our grant-making, our operating divisions contribute to a wide variety of special programs that make a difference in our communities, such as P.J. Huggabee, the plush bear that benefits needy children.

Social Action Giving Our focus is on programs and projects that strengthen families, promote the economic independence of individuals or enable neighborhoods to respond to key social and economic concerns. For the third consecutive year, Mervyn's helped clothe nearly 20,000 children during their back-to-school ChildSpree shopping event, which helps families that cannot otherwise afford new clothes for their children.

Arts Giving Our goal is to invest in programs and projects that strengthen artistic excellence and increase access to the arts in our communities nationwide. In Los Angeles, Target and Mervyn's have teamed up as an "Arts Partner" with the city's cultural affairs department to preserve two community arts centers.

Education Giving An increasingly important part of our community work involves education. In 1995, Target offered more than $1.5 million in scholarships to high school seniors who demonstrated personal achievement through a commitment to education, community volunteer service and close family involvement.

Employee Volunteerism Our team members and their families also give back to their communities with the gift of their time. In Detroit, more than 600 Hudson's, Target and Mervyn's employees joined together to take part in the annual "Paint the Town" campaign, restoring 14 homes of senior citizens, low-income and disabled residents.

Our commitment to communities is an important part of who we are.

Directors and Management

Directors

Rand V. Araskog, 64
Chairman and
Chief Executive Officer,
ITT Corporation
(diversified multinational company) (1) (3) (5)

Livio D. DeSimone, 59
Chairman and
Chief Executive Officer,
3M
(diversified manufacturer)
(1) (2) (5) (6)

Roger A. Enrico, 51
Chief Executive Officer,
PepsiCo, Inc.
(domestic and international beverage and food business)
(1) (3) (5)

William W. George, 53
President and
Chief Executive Officer,
Medtronic, Inc.
(therapeutic medical device company) (1) (2) (4)

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Vice Chairman,
Executive Committee,
Dayton Hudson Corporation
President and
Chief Executive Officer,
TENNANT
(industrial equipment manufacturer) (1) (3) (5) (6)

Betty Ruth Hollander, 66
Chairman and
Chief Executive Officer,
Omega Technologies, Inc.
(manufacturer of scientific measurement and control devices and systems, technical publishing, and industrial and commercial real estate development) (1) (3) (4)

Michele J. Hooper, 44
Corporate Vice President,
International Businesses,
Caremark International, Inc.
(health care company)
(1) (2) (5)

James A. Johnson, 52
Chairman and
Chief Executive Officer,
Fannie Mae
(financial services company) (1)

Mary Patterson McPherson, 60
President,
Bryn Mawr College
(institute for higher learning)
(1) (2) (4) (6)

Solomon D. Trujillo, 44
President and
Chief Executive Officer,
US WEST Communications Group, Inc.
(regional telecommunication services company) (1) (3) (4)

Robert J. Ulrich, 52
Chairman and
Chief Executive Officer,
Dayton Hudson Corporation
and Target (1)

John R. Walter, 49
Chairman and
Chief Executive Officer,
R. R. Donnelley & Sons Company
(printing and printing services)
(1) (2) (4) (6)

(1) Executive Committee
(2) Audit Committee
(3) Compensation Committee
(4) Corporate Responsibility Committee
(5) Finance Committee
(6) Nominating Committee

Officers

Robert J. Ulrich*+, 52
Chairman and
Chief Executive Officer,
Dayton Hudson Corporation
and Target

Kenneth B. Woodrow*+, 51
President, Target

Larry V. Gilpin*+, 52
Executive Vice President,
Team, Guest and
Community Relations, Target

Robert G. McMahon*+, 47
Senior Vice President,
Property Development, Target

John E. Pellegrene*+, 59
Executive Vice President,
Marketing, Target

Gregg W. Steinhafel*+, 41
Executive Vice President,
Merchandising, Target

Paul W. Sauser*+, 48
President and Chief Operating
Officer, Mervyn's

Raj Joneja*+, 48
Executive Vice President,
Merchandising, Mervyn's

Linda L. Ahlers*+, 45
President,
Department Store Division

James T. Hale*+, 55
Senior Vice President, General
Counsel and Secretary,
Dayton Hudson Corporation

Douglas A. Scovanner*+, 40
Senior Vice President and
Chief Financial Officer,
Dayton Hudson Corporation

Vivian M. Stephenson*+, 58
Senior Vice President and
Chief Information Officer,
Dayton Hudson Corporation

Gerald L. Storch*+, 39
Senior Vice President,
Strategic Planning,
Dayton Hudson Corporation

Edwin H. Wingate*+, 63
Senior Vice President,
Personnel,
Dayton Hudson Corporation

JoAnn Bogdan*, 43
Controller and Chief
Accounting Officer,
Dayton Hudson Corporation

Gail J. Dorn, 33
Vice President,
Communications,
Dayton Hudson Corporation

L. Fred Hamacher, 57
Vice President,
Compensation and Benefits,
Dayton Hudson Corporation

William E. Harder, 63
Vice President, Law,
Deputy General Counsel
and Assistant Secretary,
Dayton Hudson Corporation

William P. Hise, 59
Assistant Secretary,
Dayton Hudson Corporation

Stephen C. Kowalke, 38
Treasurer,
Dayton Hudson Corporation

Jack N. Reif, 48
Assistant Treasurer,
Dayton Hudson Corporation

* Executive Officer
\+ Corporate Operating Committee Member

Dayton Hudson Corporation
Corporate Offices: 777 Nicollet Mall
Minneapolis, Minnesota 55402
(612)370-6948

Annual Meeting

The Annual Meeting of Shareholders is scheduled for May 22, 1996, at 9:30 a.m. CDT at The Children's Theatre, 2400 Third Avenue South, Minneapolis, Minnesota.

10-K Report

A copy of the Form 10-K Annual Report, filed with the Securities and Exchange Commission for Dayton Hudson's fiscal year ended February 3, 1996, is available at no charge to shareholders. Write to Director, Investor Relations, at the Dayton Hudson corporate offices, 777 Nicollet Mall, Minneapolis, Minnesota 55402.

Quarterly Shareholder Information

A copy of the quarterly earnings news release and/or the 10-Q, filed each quarter with the Securities and Exchange Commission, is available at no charge to shareholders. To obtain a copy of the current quarter's results, you may call 612-370-6736 or write to Director, Investor Relations, Dayton Hudson Corporation, 777 Nicollet Mall, Minneapolis, Minnesota 55402.

Dividend Reinvestment Plan

The dividend reinvestment plan is a convenient way for Dayton Hudson shareholders to acquire additional shares of the Corporation's common stock through automatic dividend reinvestment or voluntary cash purchase. All registered holders of Dayton Hudson common stock may participate. For more information, write to First Chicago Trust Company of New York, P.O. Box 2500, Jersey City, NJ 07303-2500, or call 1-800-317-4445.

Transfer Agent, Registrar and Dividend Disbursing Agent

First Chicago Trust Company of New York

Trustee, Employee Savings (401k) and Pension Plans

First Trust National Association

Stock Exchange Listings

(Trading symbol DH)
New York Stock Exchange and
Pacific Stock Exchange

Shareholder Assistance

For assistance regarding individual stock records, lost certificates, name or address changes, dividend or tax questions, write to First Chicago Trust Company of New York, P. O. Box 2500, Jersey City, NJ 07303-2500, or call 1-800-317-4445.

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